

Preparers' Lobbying Rationale and Impact on IASB Standard Setting: The Case of Lease Accounting

Christian Betz* and Valentina Pozzobon†



Master Thesis in Accounting and Financial Management
Stockholm School of Economics

Abstract

This study models preparers' lobbying with respect to the IASB/FASB project on lease accounting, improving the methodology applied in prior studies. Therefore, we investigate (1) the lobbying rationale, divided in a) lobbying position and b) lobbying decision; and (2) the lobbying impact on the due process outcome. Through a content analysis of submitted comment letters, we determine preparers' lobbying positions on lessee accounting, which were pre-dominantly opposed to the Right-of-Use Model and the related Key Issues. Testing our developed hypotheses, we conduct both qualitative and quantitative analyses. Regarding the rationale of the lobbying position, results are not consistent with economic theory (Watts & Zimmerman 1979). Adverse economic consequences seemingly do not explain variations in preparers' lobbying position on lessee accounting to a substantial degree. Further, results indicate that firm attributes of power and healthiness, and past lobbying experience are crucial drivers of the lobbying decision. As previous studies (Hussein 1981; Kwok & Sharp 2006), we show that, although preparers do not dominate the due process, their lobbying activity has a significant influence on the due process outcome. We recommend future research on leases to include the re-exposure, lessor accounting and all constituents' submissions. In general, studies should continue to analyze two different levels of the lobbying position, devote attention to past lobbying, and refine proxies on the lobbying decision.

Keywords: Accounting Choice, Lobbying, International Accounting Standards,
Lease Accounting, Standard Setting

Tutor: Walter Schuster

Date: 2011-12-12

* 40162@student.hhs.se

† 40166@student.hhs.se

The authors would like to thank Walter Schuster for his valuable guidance throughout the thesis project, Per-Olov Edlund for his statistical support, and Anja and Tomas Hjelström for the consultation during the thesis project's initial stages.

Table of Content

List of Acronyms	IV
List of Figures	V
List of Tables	VI
1. Introduction	- 1 -
2. Literature on Lobbying on Accounting Standard Setting	- 4 -
2.1 Research on Lobbying Rationale	- 4 -
2.1.1 Theories on Lobbying Position	- 5 -
2.1.2 Theories on Lobbying Decision	- 8 -
2.1.3 Empirics	- 12 -
2.1.4 Conclusion	- 17 -
2.2 Research on Lobbying Impact	- 19 -
2.2.1 Theories	- 20 -
2.2.2 Empirics	- 22 -
2.2.3 Conclusion	- 23 -
3. The Case: Lease Accounting and Standard Setting	- 25 -
3.1 IASB Standard Setting Due Process	- 25 -
3.2 Lease Accounting and its Evolution	- 27 -
3.3 Proposed Standard Changes (Lessee Accounting Models)	- 29 -
3.4 Due Process Dynamics	- 35 -
4. Effects of Proposed Standard Changes	- 37 -
4.1 Capital Markets' Efficiency to Process Lease Information	- 37 -
4.2 Primary Effects	- 38 -
4.3 Secondary Consequences	- 42 -
4.4 Tertiary Reactions	- 44 -
4.5 Conclusion	- 45 -
5. Empirical Research	- 46 -
5.1 Research Contribution and Scope Limitations	- 46 -
5.2 Hypotheses Development	- 47 -
5.2.1 Lobbying Rationale	- 47 -
5.2.2 Lobbying Impact	- 51 -
5.3 Structure Empirical Analysis	- 51 -
6. Lobbying Activity	- 53 -
6.1 Method	- 53 -
6.1.1 Content Analysis	- 53 -
6.1.2 Coding System	- 54 -

6.2 Sample and Sub-clusters	- 56 -
6.3 Descriptive Statistics	- 58 -
6.3.1 Lessees' Lobbying Activity	- 58 -
6.3.2 Other Preparers' Lobbying Activity	- 60 -
6.3.3 Industry Associations' Lobbying Activity	- 62 -
6.3.4 Further Considerations on Argument Types	- 63 -
6.4 Conclusion on Lobbying Activity	- 65 -
7. Lobbying Rationale	- 66 -
7.1 Analysis of Lobbying Position	- 66 -
7.1.1 Methodology	- 66 -
7.1.2 Lessee Perspective	- 71 -
7.1.3 Industry Perspective	- 75 -
7.1.4 Other Preparers	- 77 -
7.2 Analysis of Lobbying Decision	- 79 -
7.2.1 Methodology	- 79 -
7.2.2 Descriptive Statistics	- 83 -
7.2.3 Analysis Results	- 83 -
7.2.4 Discussion and Conclusion	- 84 -
7.3 Conclusion on Lobbying Rationale	- 86 -
8. Lobbying Impact	- 87 -
8.1 Methodology	- 87 -
8.2 Due Process Dynamics	- 88 -
8.2.1 Respondents' Opposition	- 88 -
8.2.2 Re-Deliberations	- 89 -
8.2.3 Due Process Interaction	- 94 -
8.3 Analysis of Lobbying Impact	- 95 -
8.3.1 Results and Discussion	- 96 -
8.3.2 Further Considerations	- 98 -
8.4 Conclusion	- 101 -
9. Concluding Thoughts	- 102 -
References	VII
Additional References	XIII
Appendix A – Lessee Accounting Paragraphs	XV
Appendix B – Comment Letter Coding Schemes	XXVIII
Appendix C – Statistics Lobbying Rationale by Industry	XXXI

List of Acronyms

<i>AASB</i>	<i>Australian Accounting Standard Board</i>
<i>ASB</i>	<i>(UK) Accounting Standard Board</i>
<i>BS</i>	<i>Balance Sheet</i>
<i>CFS</i>	<i>Cash Flow Statement</i>
<i>CAPOL</i>	<i>Capitalized Operating Leases</i>
<i>CL</i>	<i>Comment Letter</i>
<i>CV</i>	<i>Control Variable</i>
<i>DP</i>	<i>Discussion Paper</i>
<i>DV</i>	<i>Dependent Variable</i>
<i>D/E</i>	<i>Debt/Equity</i>
<i>ED</i>	<i>Exposure Draft</i>
<i>FASB</i>	<i>Financial Accounting Standard Board</i>
<i>FL</i>	<i>Financial Lease</i>
<i>FLE</i>	<i>Front Loading Effect</i>
<i>IAS</i>	<i>International Accounting Standard</i>
<i>IASB</i>	<i>International Accounting Standard Board</i>
<i>IASC</i>	<i>International Accounting Standard Committee</i>
<i>ICR</i>	<i>Interest Coverage Ratio</i>
<i>IFRS</i>	<i>International Financial Reporting Standard</i>
<i>INDV</i>	<i>Independent Variable</i>
<i>IS</i>	<i>Income Statement</i>
<i>MLP</i>	<i>Minimum Lease Payments</i>
<i>NZSA</i>	<i>New Zealand Accounting Standard Review Board</i>
<i>OL</i>	<i>Operating Lease</i>
<i>OLE</i>	<i>Operating Leases Expenses</i>
<i>OLS</i>	<i>Ordinary Least Squares</i>
<i>OP</i>	<i>Operating Profit</i>
<i>RED</i>	<i>Re-Exposure Draft</i>
<i>RoA</i>	<i>Return on Assets</i>
<i>RoU Model</i>	<i>"Right-of-Use" model</i>
<i>SFAS</i>	<i>Statement of Financial Accounting Standard</i>
<i>TA</i>	<i>Total Assets</i>
<i>The Boards</i>	<i>IASB & FASB</i>
<i>W&Z</i>	<i>Watts & Zimmerman</i>

List of Figures

Figure 1: A Model of Firms' Submissions to the FASB	- 7 -
Figure 2: The Power Model of IASC Policy Making	- 21 -
Figure 3: The Six Stages of the IASB Standard Setting Process	- 26 -
Figure 4: Due Process Timeline of Lease Project	- 28 -
Figure 5: Current Lessee Accounting Models	- 38 -
Figure 6: Thesis Analysis Scheme (Causal Chain of Preparers' Lobbying)	- 52 -
Figure 7: Histogram RoU_SCORE (Sample 1a)	- 71 -
Figure 8: Histogram KI_SCORE (Sample 1a)	- 71 -
Figure 9: Mean Trend of Preparers' Positions and Boards' Changes	- 99 -
Figure 10: Mean Trend of Preparers' Positions and Boards' Changes (DP)	- 100 -
Figure 11: Mean Trend of Preparers' Positions and Boards' Changes (ED)	- 100 -

List of Tables

Table 1: Elbannan and McKinley's Corporate Resistance Model	- 12 -
Table 2: Classification Scheme for Empirical Studies	- 12 -
Table 3: Summary of Empirical Studies on Lobbying Position (Category 1)	- 14 -
Table 4: Summary of Empirical Studies on Lobbying Position (Category 2)	- 14 -
Table 5: Summary of Empirical Studies on Lobbying Decision (Category 3)	- 15 -
Table 6: Summary of Other Empirical Studies on Lobbying Rationale (Category 4)	- 16 -
Table 7: Summary of Proxies for Lobbying Position	- 18 -
Table 8: Summary of Proxies for Lobbying Decision	- 19 -
Table 9: Summary of Empirical Studies on Lobbying Impact	- 23 -
Table 10: Summary of Key Findings on Lobbying Impact	- 24 -
Table 11: Overview of Identified Key Issues	- 30 -
Table 12: Overview of Proposed Standard Changes (Lessee Accounting Models)	- 34 -
Table 13: Overview of Due Process Dynamics	- 36 -
Table 14: Overview Primary Financial Statement Effects (Financial Metrics)	- 40 -
Table 15: Overview of Primary Effects Related to Identified Key Issues	- 42 -
Table 16: Key Findings of Effect Analysis	- 45 -
Table 17: CL Coding System	- 55 -
Table 18: Sample Breakdown	- 56 -
Table 19: Classification Scheme of Lobbyists	- 57 -
Table 20: Industry and Geographical Distribution (Sample 1a)	- 58 -
Table 21: Coding Results (Sample 1a)	- 59 -
Table 22: Geographical Distribution (Samples 1b & 1c)	- 60 -
Table 23: Industry Distribution (Samples 1a & 1b)	- 61 -
Table 24: Coding Results (Sample 1b)	- 61 -
Table 25: Coding Results (Sample 1c)	- 62 -
Table 26: Coding Results (Sample 2)	- 63 -
Table 27: Coding Results RoU Model Arguments	- 64 -
Table 28: Proxy Overview Lobbying Position	- 68 -
Table 29: Descriptive Statistics Lobbying Position (Sample 1a)	- 71 -
Table 30: Parameter Estimates Regression Outcome (M1)	- 72 -
Table 31: Parameter Estimates Regression Outcome (M2)	- 72 -
Table 32: Spearman's Correlation Coefficient KI_SCORE	- 73 -
Table 33: KPMG Ranking vs. Mean Value Ranking	- 76 -
Table 34: Descriptive Statistics Lobbying Position (Sample 1a/b/c)	- 77 -
Table 35: Comparison Lobbying Position (across Sample 2)	- 78 -
Table 36: Proxy Overview Lobbying Decision	- 81 -
Table 37: Descriptive Statistics Lobbying Decision (Sample 1 - ED)	- 83 -
Table 38: Parameter Estimates Regression Outcome (M3)	- 83 -
Table 39: Results Hypotheses Testing (Lobbying Position)	- 86 -
Table 40: Results Hypotheses Testing (Lobbying Decision)	- 86 -
Table 41: Overview of Main Due Process Dynamics	- 89 -
Table 42: Overview of Identified KIs and Main KI Changes	- 94 -
Table 43: Preparers' Lobbying Impact: Alignment with IASB/FASB Positions	- 96 -
Table 44: Response Intensity (Total Sample)	- 98 -
Table 45: Constituents' Due Process Participation	- 99 -

1. Introduction

Lobbying on accounting standard setting is commonly defined as the action which interested parties take in order to influence a rule-making body; such activities may vary in nature, from written submissions to pressure on elected representatives (Sutton 1984, p.81). Firms in their role as preparers of financial statements are a crucial constituent group in the context of standard setting. Since the 1970s, ample research had been dedicated to lobbying on accounting standard settings and its influence on the IASB/FASB: Academics explained the surge in interest by “the rise of economic consequences” (Zeff 1978), which opened standard setters to non-purely accounting arguments, thereby setting the stage for lobbying, with the contextual opening of the due processes to constituent participation. Literature in the field is marked by heterogeneity of the theoretical alignment, due to the difficulty of establishing theories in a context where economic, social and other disciplines possibly offer insights.

Preparers' lobbying rationale is characterized by two distinct, yet interconnected elements: The lobbying position towards proposed accounting standards, and the lobbying decision to actively lobby (or not) for established positions. Both elements are supposed to explain the public path of lobbying activities in the accounting standard due process, i.e. the submission of comment letters to standard setters. Regarding the lobbying position, Watts and Zimmerman's papers (1978; 1979; 1990) initiated the development of a school of positive accounting choice, which suggested that the lobbying position is driven by expected economic consequences of proposed standards (Watts & Zimmerman 1978). Turning to the lobbying decision, the works of Downs (1957), Olson (1971), Lindahl (1987) and Chung (1999) showed the importance of economical and game-theoretical considerations. The notion of accounting standards as public goods led to considerations exceeding typical cost-benefit models, introducing the concepts of free-riding, multiple voices, collective lobbying and informational effects.

In research, it is widely recognized that preparers' lobbying activities do impact the due process outcome of IASB/FASB standard setting. The Boards' responsiveness to lobbying is supposedly high due to its institutional character, which results from striving for legitimacy and resources (Kenny & Larson 1993). Hence, it is supposed that the Boards attempt to reach balanced equilibrated compromises, trading off technical and political solutions (Kwok & Sharp 2006). However, preparers are not expected to dominate the outcome; yet, as they represent the strongest constituency group, they are expected to be significantly influencing the outcome of the standards, at least on critical key issues (Kenny & Larson 1993).

In order to empirically examine the corporate lobbying rationale and the corporate influence on the outcome, we choose the IASB/FASB ongoing lease project. Leasing has emerged as a widely used form of business transactions, primarily in the form of operating lease contracts because of their off-balance sheet nature; parallel to its increasing usage, leasing was frequently on the agenda of global standard setters due to the heavy criticism of the current discipline of the IAS 17 (and the equivalent US GAAP SFAS 13). In 2006, the IASB/FASB decided to add the lease project on their joint agenda with the aim of developing a new high-quality accounting standard and eliminating the distinction between accounting for operating and finance leases. From a theoretical standpoint, the IASB/FASB acknowledged that the right to use a leased asset meets the IFRS framework's definition of an asset and the obligation meets the definition of a liability (IASB & FASB 2009, IN6); consistently, not only finance leases, but all

lease agreements should be recognized on the balance sheet (the 'Right-of-Use' Model). This change provoked a revival of the discussion on lease capitalization of operating leases on lessees' balance sheet. Empirical studies provided evidence that the newly proposed lease treatment will considerably impact financial statements and associated ratios, primarily currently reported leverage, profit measures and returns on assets, possibly also introducing substantial income volatility (Lipe 2001; Goodacre 2003; Beattie 2006; Durocher 2009).

Consistent with the literature on lobbying rationale, many constituents submitted their views as a response to the IASB/FASB Discussion Paper and Exposure Draft, opposing the change and trying to smooth the anticipated adverse effects by influencing the Boards' decisions on the key components of the 'Right-of-Use' model. Considering the many 'U-turns' deliberated by the Boards during the different versions of lease accounting, it is easy to recognize that the progression was far from being linear, with the IASB/FASB adjusting their views supposedly on respondents needs and wishes. The decision in Q3 of 2011 to re-expose the lease standard once again provided further evidence of the controversy and complexity of the lease project, making it thus a suitable research object for an empirical analysis of corporate lobbying.

Research Area and Methodology

This study contributes to the accounting lobbying literature by examining lobbying behavior surrounding the standard on leases, explaining what drove preparers to lobby and which impact they did achieve. The choice of the lease standard was justified by the lack of studies directly referring to former or recent due processes on leases; by the considerable constituent participation; and by the significant dynamics observed throughout the project.

Consistent with our literature review, we developed three categories of hypotheses. First, we tested whether preparers' (especially lessees') lobbying position is driven by economic consequences (adverse financial statement effects, debt covenant constraints, compliance / proprietary costs), the lobbying position towards the lessee accounting model, past lobbying experiences, alignment with industry associations, industry membership and lessors' business model threat. Next, we tested whether the lobbying decision to submit a comment letter to the IASB/FASB was triggered by firm attributes of power and healthiness (defined as market capitalization), the nested lobbying position, past lobbying activities, peer pressure and the strength of corporate governance system. Last, we tested the degree, the way and strategy to/by which preparers influenced the standard outcome in the due process on leases.

We also advance existing literature on the subject. First, we conducted a holistic study on the whole causal chain of corporate lobbying, extending the analysis scope from the lobbying rationale of observed lobbying activities to the actual impact on the standard setting outcome. Furthermore, to avoid an oversimplification of the lobbying position of preparers, we analyzed the submission of comment letters during the due process in a twofold manner, recognizing both the lobbying position on the new 'Right-of-Use' Model and on certain crucial structural Key Issues, which were core to the discussion among constituents. Last, we devoted particular attention to industry membership and associations. Yet, we defined two scope limitations to our analysis. First, the scope of the thesis was limited to lessee accounting, excluding the lessor accounting. Second, we excluded constituents other than preparers, due to the preparer focus of this paper and the limited resources of a thesis project, to analyze corporate submissions.

Empirical Findings

Our empirical findings reported mixed results. Different from what we expected, we found only limited evidence that anticipated economic consequences drove lessees' lobbying position. In addition, analysis results showed that preparers' positions with respect to the overall 'Right-of-Use' Model were highly associated with the position taken on certain Key Issues that were subject to debate. Industry characteristics partly affected the taken lobbying positions, especially for the retail and telecom sector.

Next, regression results indicated that preparers' decision to lobby was mainly triggered by attributes of power and healthiness, and past lobbying experience. Also, we saw indications that opposing preparers more likely decide to lobby. Social factors were seemingly of low importance (industry associations; peer pressure; corporate governance). For the lobbying decision, all industries and preparer subsamples showed similar patterns.

Results on the lobbying impact are consistent with the theoretical underpinnings. We found that although preparers did not dominate the due process, their lobbying activities had a significant influence on the outcome of the Re-Exposure Draft. The due process outcome appeared to be the result of an "implicit bargaining exchange to reach a compromise solution" (Hussein 1981) between the IASB/FASB and constituent groups.

Paper Structure

This thesis is structured as follows. In Chapter 2, we give an overview of existing research regarding preparers' lobbying rationale in accounting standard setting and of their impact on the due process outcome. Next, in Chapter 3, we discuss the current and newly proposed lease accounting discipline, while Chapter 4 examines the anticipated effects that preparers may experience from the change in the lease standard. Next, in Chapter 5 we introduce our hypotheses and empirical study design. Subsequently, we apply a content analysis to examine firms' lobbying activities in Chapter 6. Then, Chapter 7 presents our findings on firms' lobbying rationale, while Chapter 8 presents evidence on preparers' lobbying impact. Chapter 9 summarizes our findings and suggests further research directions.

2. Literature on Lobbying on Accounting Standard Setting

Before starting with the content-wise analysis parts of our thesis, we turn to existing literature on lobbying in the context of accounting standard setting. The review of relevant theoretical underpinnings and empirical findings is essential for the analysis of preparers' lobbying on the proposed lease standard. Generally speaking, ample research exists on the lobbying rationale (Chapter 2.1) and lobbying impact (Chapter 2.2), especially focusing on the former. Literature is marked by heterogeneity and partly immaturity of the theoretical alignment and achieved progress. This is due to the difficulty of establishing theories and conducting research in a context where economic, social and other disciplines possibly offer insights, and thus, research requires the usage of multi-disciplinary approaches. Also, literature shows little homogeneity in the treatment of the lobbying position, decision and impact with regards to their differentiation and consideration. Hence, this literature review is not only of particular importance to handle the complexity of the thesis project's underlying literature, but also to develop our research contribution and hypotheses, and to discuss our analysis results.

The 1970s can be seen as the starting point of research on lobbying on accounting standard setting. Academics explained the surge in interest by "the rise of economic consequences" (Zeff 1978). Challenging the traditional notions of 'neutral accounting', constituents involved in standard setting shifted focus from measurement and presentation issues towards the inclusion of economic consequences. In those times, the public started to expect the Financial Accounting Standard Board [FASB] to positively contribute to the public by avoiding adverse economic consequences of standard changes. Thus, the FASB Chairman (1970s), Armstrong supported the consideration of "social [choices]" (1977, p.77). Zeff (1978) argued that this change in mindset opened up the FASB for non-purely accounting arguments, and thus, set the stage for lobbying. This went hand in hand with the opening of due processes to constituent participation in 1973. Subsequently, this evolution triggered a surge in academic research on lobbying in standard setting.

2.1 Research on Lobbying Rationale

As explained before, for the purpose of analysis, we separate the lobbying rationale into two elements: a) lobbying position, and b) lobbying decision. With regards to the literature review, we want to examine literature that delivers theories and empirics about a) why preparers take which content-wise lobbying position, and b) why preparers decide to actively lobby in which way (method, constellation) for established positions. Both elements are supposed to explain observed lobbying activities in due processes, i.e. the submission of comment letters [CL].

Within the body of existing research, one can accordingly differentiate between two research streams, namely accounting choice research (see part 2.1) and lobbying research (see part 2.2) (see for differentiation Francis 1987, p.36f). However, each stream seen in an isolated fashion does not deliver sufficient theoretical underpinning to understand the lobbying rationale; hence a fusion of both streams is required. Yet, literature tends either to only examine the lobbying position or decision (Koh 2011), or not to distinguish clearly between both elements at all (Lindahl 1987). In the course of the following two parts, the theoretical origin of both streams is described and related empirics are introduced.

2.1.1 Theories on Lobbying Position

With regards to preparers' lobbying position, different research streams aim at explaining why certain content-wise lobbying positions are taken. Most influential is the stream of accounting choice research, which is again divided in two schools of thought, normative and positive research. Originally, this accounting choice research tried to explain accounting choices made by preparers within the set of existing accounting standards. However, after the mentioned 'rise of economic consequences' (Zeff 1978), this stream started to treat preparers' lobbying positions in the context of accounting standard setting as a preferred field of application for accounting choice research (Francis 1987). Within this field of research, the establishment of a lobbying position can be seen as a hypothetical accounting choice.

Normative Accounting Choice Research

Historically, school of normative research¹ dominated accounting choice research. Academics belonging to this school of thought, tried to explain choices made by preparers based on accepted accounting principles, i.e. related to measurement and presentation. The school's objective has been described as giving "prescriptions" or "extant normative propositions" (Watts & Zimmerman 1990, p.148). Opponents criticized that normative theories were not capable to explain empirically observed variations in firm's accounting choices (Watts & Zimmerman 1978; 1979). Zeff expressed concern that this school only served as a "tactic to buttress one's preconceived notions" (1974, p.177). Developed accounting principles were accused of being "excuses for political action" (Watts & Zimmerman 1979, p.273), lacking consideration of economic consequences as an alternative explanation, next to others.

Positive Accounting Choice Research

Opposing the idea of normative accounting research, a second school of thought was created, which is referred to as positive accounting research. The most influential contributions to the school's establishment, which is gaining ongoing academic attention, were delivered by Watts and Zimmerman [W&Z].² In their first paper (1978), they developed an economic model which they tested empirically. The second paper (1979) contributed to the theoretical discussion, while the last paper (1990) reviewed the school's evolution throughout the 1980s.

Positive accounting research "aimed at explanation and prediction" of empirical regularities of accounting practice, instead of prescribing normative propositions (Watts & Zimmerman 1979, p.273). While the general aim was broad, the school mainly concentrated on identifying "economic incentives that are associated with management's choice of accounting methods" (Francis 1987, p.36) to explain research's empirical findings. Holthausen and Leftwich (1983) saw this as the school's most distinct feature. Thus, when leaving the lobbying context out of scope first, the schools' main contribution is the idea that empirics cannot be explained by 'neutral' accounting principles but by economic incentives.

W&Z based the idea of their cost-benefit framework on the 'economic theory of the firm', which supposed that contracting costs explain a firm's organization, including accounting

¹ Watts and Zimmerman (1979, p.273) refer to normative accounting theories from authors such as Canning (1929), Paton (1922), Edwards and Bell (1961), Sprouse and Moonitz (1962), Gordon (1964), Chambers (1966), American Accounting Association (1966).

² Watts and Zimmerman (1990, p.132) see the origin of their school in the works of Ball and Brown (1968) and Beaver (1968), which "introduced empirical finance methods to financial accounting". Yet, due to the assumption of accounting being neutral and not having value impact, they focused on the informational perspective and failed to sufficiently explain accounting choices.

choices, as a firm strives for survival by being as efficiently organized as possible. Managers have the choice to choose ex-post from within an “accepted set of accounting methods” that has been defined ex-ante. By making those choices, they can “either increase the wealth of all contracting parties or redistribute wealth among the parties” (Watts & Zimmerman 1990, p.137). Limitations to the accepted set are e.g. defined by accounting policies, compensation plans and debt covenants, but may be revised at certain contracting costs. Thus, positive accounting research aimed at explaining a firm’s accounting choice based on the ‘economic equilibrium’ suggested by economic theory (Watts & Zimmerman 1990).

However, positive accounting choice research was rarely conducted in an isolated fashion, meaning solely focused on a firm’s accounting choice. From the beginning in the 1970s, the school’s evolution was interconnected with lobbying on accounting standards, as this context served as both, subject of empirical research and justification of positive accounting theory (or normative theories’ invalidity). Confessing normative accounting theories’ limited explanatory power of accounting practice, accounting academics suggested that “literature of organization, political action, social change and social choice may be more closely related to the development of accounting standards than we have been willing to admit” (Horngren 1973, p.66). Horngren further supposed that “the setting of accounting standards is as much a product of political action as of flawless logic” (1973, p.61). While these quotations indicate first parallels to the stream of lobbying research, they also clearly show the context positive accounting theory originated from. Thus, positive accounting research mainly aimed at explaining accounting choices in the context of standard setting (preparers’ lobbying position).

Following academics’ demands (Horngren 1973), positive accounting research incorporated literature from other streams. As mentioned, W&Z (1978) established the connection to economic theory, borrowing from Downs (1965). But more essentially, they tried to integrate the idea that in regulated economies “competition among individuals for the use of coercive power of government to achieve wealth transfers” (Watts & Zimmerman 1979, p.275) exists. Normative theories, they argued, were often only relating to public interest, and hence, failed to reflect the notion of self-interest and rationality involved in lobbying on accounting standard setting. Thus, concepts from research on political processes (Stigler 1971) were integrated in order to meet expectations.

Watts and Zimmerman’s Economic Model

Next, we take a glance at W&Z’s formal model of an economic equilibrium (1978). In general, the authors examined a “causal relation between lobbying and the economic impact on the firm” (Chung 1999, p.245). The economic model included “costs and benefits generated by accounting standards which accrue to management” (Watts & Zimmerman 1978, p.113). Following Gordon’s decision principle of managements’ wealth maximization (1964), the authors decided to take a management self-interest and no entity perspective. W&Z (1978, pp.118-122) named the framework “a model of firms’ submissions to the FASB”. Below Figure 1 shows the visualization of the model for the first scenario³ of anticipated earnings decreases (decreases that accrue due to the standard change). The model implicitly included the economic basis for choice of both the lobbying position and decision.

³ W&Z (1978) introduce two scenarios to their model: 1A) accounting earning decrease and 1B) accounting earning increase. With regards to the anticipated effects of the leasing standard, only Scenario 1A is of relevance.

W&Z (1978) depicted the lobbying position's economic rationale in three elements (GB, IC and NB). Starting with gross benefits [GB], and then deducting information costs [IC] to reach the net benefits [NB] ($GB - IC = NB$). The authors denoted the curves as a function of firm size. GB consist of compensation effects and costs of political visibility. The latter factor refers to the governmental intervention argument, which claims that firms that are subject to public attention will positively consider proposed standard changes resulting in earnings decreases as it decreases the likelihood of political intervention (i.e., by lowering allowed margins). The management compensation factor is per se a neutral variable as compensation plans are assumed to be adjusted for accounting standard changes; yet, re-writing costs may occur. GB is supposed to be positive, if the standard change decreases earnings, for all but very small firms, especially due to the governmental intervention argument. IC denotes the increase in standard compliance costs, including both one-off and ongoing costs (i.e., adaptations and disclosures). From NB, W&Z derived the management's lobbying position. Managers of firms larger than Size B are expected to support the standard; below Size B opposition is expected.

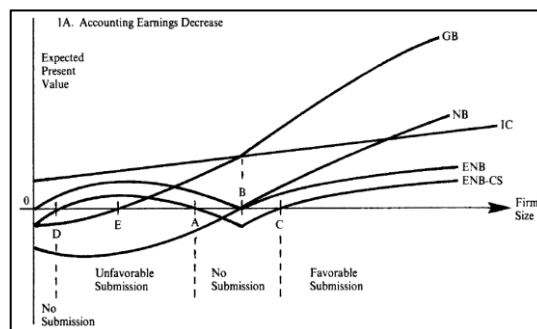


Figure 1: A Model of Firms' Submissions to the FASB
Source: (Watts & Zimmerman 1978, p.119)

Next, W&Z (1978) include the lobbying decision. With NB being negative, management will consider to oppose the proposed change by an unfavorable submission. Conversely, with a positive present value, managers might support the change with a favorable submission. Next, expected net benefits [ENB] are added to the model. ENB are derived from NB by taking NB times the marginal change in likelihood of the proposed standard being adopted, resulting from one's own CL submission. According to the visualization, the authors see the marginal likelihood as independent of firm size. Last, the ENB minus costs of submission [ENB-CS] curve considers the costs of lobbying, mainly opportunity cost of time. Hence ENB-CS represents the expected marginal net benefits of the preparers' own submission (lobbying activity). W&Z expect the management to decide to lobby for firm sizes with positive ENB-CS. Lobbying is expected to take place in two size domains (favorable submission if size D to A / unfavorable submission if size C to infinite). In the remaining domains, no activity is conducted ($CS > ENB$).

Watts and Zimmerman's Empirical Test and Review Paper

W&Z (1978) tested their formal model empirically by analyzing the FASB's DP on general price level adjustments [GPLA] from 1974. They analyzed preparers' lobbying position based on CL submissions. For the regression, four proxies were used: 1) adverse earnings effect (GPLA vs. normal); 2) firm size (asset size); 3) compensation plan (existence; yes or no); 4) regulatory environment (rate setting; yes or no). Empirical results confirmed the derived hypotheses: H1) With increasing GPLA earnings, firms will oppose the change independent of the firm size; H2) With decreasing GPLA earnings, firms will support the change beginning from firm size C. A discriminant analysis showed that size explained lobbying positions to more than half. Overall, W&Z's findings confirmed the model proposition that firm size (after controlling for direction of earnings change) significantly explains preparers' lobbying positions. The authors saw this as a confirmation of the government intervention argument, which supposes that large firms are afraid of governmental wealth transfers due to rising profits.

In their review paper (1990, p.133f), W&Z clarified that potentially all contracting costs can serve as proxies to explain preparers' accounting choices. They specify three types of situations: 1) market transactions (e.g., debt or equity issuance), 2) internal transactions (e.g., transfer pricing mechanisms), and 3) political costs (e.g., governmental tenders, engagement in political processes). Also, W&Z detail cost types: a) transaction costs, b) agency costs (e.g., monitoring, bonding, or opportunistic behavior), c) information costs, d) re-negotiation costs (e.g., contract amendments), and e) bankruptcy costs. Thus, relevant subsets of contracting costs need to be selected for the standard that is subject to discussion for empirical research.

Academic Responses to Positive Accounting Research

Positive accounting research triggered academic responses. Holthausen and Leftwich (1983) accepted the theory's consistency with the accumulating empirical evidence, especially considering size and leverage effects, and stated that "at present, there is no competing theory of accounting choice which makes these predictions" (Holthausen & Leftwich 1983, p.179). Other papers (Christenson 1983; Lowe et al. 1983; McKee et al. 1984; Solomons 1983; Whittington 1987), however, criticized the low explanatory power of proxies and questioned whether or not other proxies should be controlled for. Moreover, Lindahl (1987) questions the government intervention argument since he doubts that the function of firm size and political visibility is a one-way relationship. Lindahl claims that firms have incentives to reflect economic health to attract public subsidies and contracts. Georgiou and Roberts (2004), on the other hand, suppose that since W&Z's publication size became favorable to this respect in nowadays business environment. Yet, the strong focus on the proxy of political visibility, the simplifying assumption on compensation plans and the focus on the management perspective, thereby not considering the immediate adverse effects on the firm as a reason to oppose the proposed standard, add certain limitations to the study. Bringing the criticism one level higher, Ball and Foster (1982) claimed that inferences from positive accounting theory are relatively unreliable due to the theory's immature underpinning in its early evolutionary stages and criticized accounting theory for its "limited guidance [...] in designing an empirical research project and in interpreting" (1982, p.173).

Finally, W&Z (1990, p.151f) gave further directions for the evolution of positive accounting research in their review paper. First, they demanded a better linkage of theory and empirical tests, e.g. by testing additional hypotheses (other proxies) or by incorporating efficiency (ex-ante) and opportunism (ex-post). Second, the authors proposed to conduct inter- and intra-industry studies due to specific characteristics influencing proxies.

2.1.2 Theories on Lobbying Decision

Literature on the second element of preparers' lobbying rationale, the lobbying decision, is reviewed in this subchapter. As mentioned, only few positive accounting studies separated the lobbying decision from the lobbying position. Thus, positive accounting research contributed little insights about why and how preparers actively lobby for established lobbying positions. Yet, other streams delivered theoretical insights on why and how preparers actively lobby in political rule-making processes. Downs (1957) and Olson (1971) delivered substantial contribution to the stream's evolution. First, their political process models are introduced, and then, applied on accounting standard setting.

Downs' Political Process Model

Downs' (1957) book "An Economic Theory of Political Action in a Democracy" started to link the private sector into governmental rule-making. To explain governmental decision making in democracies, he considered power relations between interest groups and governments to be essential. To formalize the relation, Downs developed an economic model based on cost-benefit rationales. As being a lobbyist requires both gathering of costly information and being an expert, only firms with vital interests (i.e., substantial levels of income impacted) will lobby in order to exert influence on politics. Thus, according to the model only a few specialists are expected to lobby due to higher relative benefits. Downs saw a "rational ignorance" (1957, p.139f) of non-lobbyists (consumers) by interest groups, as non-lobbyists are approachable for lobbying due to rational self-interests (e.g., gain votes). "In other words, lobbying is effective in a democracy because all the agents concerned - the exploiters, the exploited, and the government - behave rationally" (Downs 1957, p.149).

Olson's Political Process Model

Olson's book "The Logic of Collective Action: Public Goods and the Theory of Groups" (1971, first publication 1965) developed Downs' theory further. The author added "a simple, yet elegant, paradigm to add order to the consideration of group action" (Lindahl 1987, p.71). Olson differentiated between individual and collective lobbying. Crucial for this differentiation is the notion of regulations being public goods, which are available to the benefits of lobbyists and non-lobbyists. Building on the idea that private actors' lobbying decisions are independent, Olson introduced the phenomena of 'free-riding': An actor will decide to free-ride when he expects someone else to lobby independently of him for the same position due to relatively higher benefits. Consequently, there are no costs but – in case of successful lobbying of the lobbyists – still benefits borne to the free-rider. Also in the case of non-success, the free-rider is better off than lobbyists.

Thus, Olson refined Downs' model by three game-theoretical scenarios (Olson 1971, pp.22-36): 1) Individual lobbying – Actors with higher individual benefits than lobbying costs will lobby individually, if they are uncertain about the free-riding opportunities; 2) Collective lobbying – If the condition of individual lobbying are fulfilled, actors will consider to lobby collectively when selective incentives – restrictions and sanctions ensuring that benefits can be withheld from free-riders – are provided; 3) No lobbying – Either costs outweigh expected benefits or no selective incentives can prevent free-riding. Overall, Olson's model delivered crucial ideas why and how firms are expected to lobby actively (individual or collective lobbying, free-riding).

Application on Accounting Standard Setting

Yet, both Downs and Olson presented generic models of lobbying in political processes without specific reference to standard setting. This linkage was established by Lindahl (1987). Based on Olson, he verified the notion that accounting standards are public goods as "benefits of a new standard (or, equivalently, the benefits of overturning a proposed harmful standard) are available to all, whether they contribute to the outcome or not" (Lindahl 1987, p.60). Taking the preparer's perspective, he noted that for Scenario 1, the firm size should be an appropriate proxy for the incentive to lobby individually. Yet, he saw two limitations. First, preparers may consider collective lobbying to be more effective (higher probability of success). Second, and conversely, firms might lobby individually but prepare jointly, and thus, partly share lobbying

costs. This mix-form is referred to as the concept of “many voices” (Lindahl 1987, p.62). With regards to Scenario 2, Lindahl suggested that collective action is most likely to be seen from small groups, such as industry associations. The reason is that within an industry, businesses are similar and subject to common, unique regulations, which may result in homogeneous lobbying positions. Hence, the membership in industry associations is supposed to be an essential mechanism to provide selective incentives. Overall, Lindahl concluded that collective action is a likely outcome of lobbying decisions in accounting standard setting (Lindahl 1987).

Sutton stressed the difficulty that arises due to “the unobservability of much lobbying activity” in standard setting and the fact that “the effectiveness of lobbying [...] is likely to vary inversely with its visibility” (1984). Yet, the author highly valued the usability of submitted CLs in particular to examine the ‘direction’ of lobbying position. However, Lindahl (1987) emphasized a major flaw related to the interpretation of CL submissions. Judging upon the lobbying decision, one needs to consider that the submission of solicited CLs “is a low-cost form of lobbying; hardly more than a vote. The sort of lobbying envisioned in this analysis would consist in costly activities [...]. We regard [evidence stemming from CLs] as quite weak with respect to our theoretical propositions” (Lindahl 1987, p.63). Thus, literature pointed out that Olson’s economic equilibrium might not be fully applicable to explain lobbying decisions related to CL submissions in accounting standard setting.

Yet, Lindahl (1987) and other articles fell short to evaluate the inferences of this flaw in detail. Thus, we suppose that it has the following implications for preparers’ lobbying decision: First, free-riding is less of an issue as costs are low. As a consequence, firms will more frequently decide to lobby individually than assumed for very costly lobbying activities. Second, firms can focus more on optimizing the lobbying effectiveness. Thus, collective lobbying might be considered for other motives, i.e. due to its supposedly higher effectiveness not necessarily to share costs. Third, this situation might also motivate firms to employ both individual and collective lobbying (‘many voices’) after aligning the lobbying position collectively.

Extension by Informational Effects

Chung (1999) further extended the economic model described by Lindahl (1987) by adding game-theoretical considerations surrounding informational effects created by the lobbying decision. With standards aiming to enhance quality of accounting information and to reduce informational asymmetries, Chung argued that “the standard setting process may be affected by its own impact on the information asymmetry” (1999, p.144). As the act of lobbying for one’s lobbying position itself may reveal information, whose presentation and disclosure a preparer actually tries to prevent, this might conversely impact lobbying decisions. In particular, if the lobbying position is to oppose the change, Chung defined four lobbying decision scenarios (1999, p.261): 1) No lobbying to prevent signaling effects; 2) As Scenario 1, but expecting opportunities to free-ride; 3) Continuous lobbying to hinder the creation of informational effects; or 4) As Scenario 3, but randomized lobbying. Besides, he supposed that small firms are more likely to take negative lobbying decisions due to signaling effects, as the information asymmetries are larger due to lower disclosure levels. Thus, he suggested using firm size as a proxy for informational effects (positive function).

Positive Accounting Research and Lobbying Decision

While, in general, being separated from their theoretical focus, parallels and connections exist between literature on the lobbying decision and positive accounting choice research. First, both streams are based on economic theory, i.e. a cost-benefit framework. W&Z (1978) borrowed from Downs' economic theory (1957) and included thoughts with regards to the lobbying decision, i.e. relative benefits, probability of lobbying success and lobbying costs already in their model (see Figure 2); however, the authors did not follow this up in their study, probably due to difficulties to examine it empirically. Second, both issues (lobbying position and lobbying decision) are irreversibly interrelated, at least when it comes to empirical research. The lobbying decision was always – at least implicitly – part of positive accounting studies as all empirical material (CLs used to examine lobbying positions) has always been intermingled with an already taken lobbying decision (see Part 2.1.3).

Thus, most empirical contributions on the lobbying decision to date were delivered by positive accounting research (see Tables 2 and 3). Some positive accounting papers also hypothesized on proxies explaining the lobbying decision. In line with Lindahl (1987) and Sutton (1984), they suggested that firm size is the most appropriate measure to approximate lobbying decisions. Francis (1987) summarizes this well by indicating that three effects should be considered. First, size affects the cost-benefit relation. Second, size increases the influence as a lobbyist (power), and thereby, the marginal probability of one's own lobbying activity. And third, based on the first two factors, large firms are more likely to experience scale effects of frequent lobbying. This mentioned size effect is further strengthened by Chung's informational effect argumentation (1999), which supposed small firms to lobby less likely. In addition, building on the marginal probability, Georgiou and Roberts (2004) proposed that a firm's past lobbying behavior influences the lobbying decision, due to a better sense for the likelihood of success.

Yet, size only approximates individual lobbying decisions and suggests free-riding by smaller peers. Few attempts exist with regards to collective lobbying. To capture this issue, Koh (2011) hypothesized the number of lobbying industry peers as a proxy. Also, he suggested considering board interlocks with other preparers. However, we wonder about the lack of consideration of available data on the participation of industry associations in relation to individual preparers.

Elbannan and McKinley's Corporate Resistance Model

Before turning to the empirical studies, we want to close this two theoretical reviews with Elbannan and McKinley's (2006) theoretical framework of corporate resistance. They introduce twelve propositions on what drives preparers' opposition on standards, of which some are hypothesized based on other theories, such as resource dependence and neo-institutional theories. While reviewed papers mainly relied on economic and financial factors, Elbannan and McKinley emphasize the importance of "cognitive, social, and political drivers of corporate resistance to FASB standards" (2006, p.602). Their framework is divided into propositions based on characteristics of 1) the accounting standard, 2) the firm, and 3) the industry. For each level four attributes are derived from theory and empirical observations. Below, Table 1 summarizes the propositions.

Table 1: Elbannan and McKinley's Corporate Resistance Model		
Propositions about the attributes of proposed <u>accounting standards</u> :	Propositions about the attributes of an affected <u>firm</u> :	Propositions about the attributes an affected firm's <u>industry</u> :
1. Creation of <u>uncertainty</u> (e.g., volatility of income, necessity of new estimates) → the greater, the more likely to lobby	5. <u>Dependence on/of ext. stakeholders</u> (e.g., acc. firms supporting preparers) → the greater, the more likely to lobby	9. <u>Industry concentration</u> (leads to coordination, profits, representation) → the greater, the more likely to lobby
2. Resulting <u>information-processing requirements</u> (e.g., book-keeping) → the greater, the more likely to lobby	6. <u>Dependence</u> of stakeholders which are <u>powerful FASB constituents</u> → the greater, the more likely to lobby	10. <u>Negative impact on KPIs subject to stakeholder attention</u> → the greater, the more likely to lobby
3. <u>Deviation</u> from institutionalized <u>financial reporting practice</u> → the greater, the more likely to lobby	7. <u>Firm size</u> (impact on cost bearing ability, acc expertise, rel. benefits) → the greater, the more likely to lobby	11. <u>Degree of regulation</u> (due to being accustomed to regulation) → the lower, the more likely to lobby
4. Negative impact on the <u>ability to acquire critical resources</u> (e.g., financing) → the greater, the more likely to lobby	8. <u>History of due process participation</u> (historical experience / motivation) → the longer, the more likely to lobby	12. <u>Growth rate</u> (leads to higher negotiation power) → the greater, the more likely to lobby

The authors defined lobbying as resistance in terms of i.e. submitting CLs, and conducting other public relation activities or influencing constituents. In general, most propositions relate to the lobbying position, while only few refer to the lobbying decision (Prop. 9, 12). Prop. 9 relates to collective lobbying (industry associations), while Prop. 12 refers to power (marginal likelihood). Prop. 2-4, 7 and 11 refer to arguments used by positive accounting research, capturing the ideas of the cost-benefit framework, including the political dimension (Prop. 11). Prop. 1, 5, 6 and 10 mainly relate to new social network ideas. Prop. 8 related to the perceived power based on experience (introduced beforehand). All in all, Elbannan and McKinley (2006) developed the framework to redirect focus to a wider spectrum of factors explaining corporate lobbying. For further empirical research, they suggested to test the developed propositions.

2.1.3 Empirics

In the aftermath of W&Z's papers, many studies have been conducted that aimed at explaining preparers' lobbying rationale. In this part, we present findings of selected studies. To examine the lobbying rationale, which we introduced theoretically beforehand, research made use of various approaches. Studies aimed at explaining the lobbying position, the lobbying decision or both. As not all research separates both elements and uses the terms lobbying position and decision consistently, there is major complexity involved in clustering research papers. Hence, Table 2 shows the classification scheme we used to cluster existing studies for our thesis. All presented research papers focus on one or more due processes as their respective empirical case studies. Thereby, studies were conducted considering different accounting regimes, yet standard setting processes are marked by a substantial degree of homogeneity, making findings representative for due processes in general. The different points in time of analysis need to be minded when it comes to changing patterns in lobbying behavior and incentives.

Table 2: Classification Scheme for Empirical Studies			
Category	Research Goal	Design (Regression Samples)	Difficulty / Implicit Assumption
Category 1 (Table 3)	Explain lobbying position (taken in submitted CLs)	Comparison of <u>supporting and opposing</u> preparers	Implicitly <u>based on a positive lobbying decision</u> ; findings limited to position of submitting preparers
Category 2 (Table 4)	Explain lobbying position (taken in submitted CLs)	Comparison of <u>submitting and non-submitting</u> preparers	Implicitly <u>based on equal lobbying decision incentives</u> to derive findings on lobbying position
Category 3 (Table 5)	Explain lobbying decision (made by submitting CLs)	Comparison of <u>submitting and non-submitting</u> preparers	Implicitly based on <u>equal lobbying position incentives</u> to derive findings on lobbying decision
Category 4 (Table 6)	Deliver other lobbying empirics	<u>Various designs</u> depending on respective study	n/a

Of crucial importance is the last column, which indicates assumptions that deserve particular awareness when reviewing research. By design, comparing samples of supporting/opposing or submitting/non-submitting preparers involves the indicated assumptions and limitations. For Category 1, one needs to be aware that regression findings only explain the lobbying position of lobbying companies, but can be supplemented by Category 2 studies. For Category 2 and 3, the problem arises from the issue that the lobbying position of non-lobbyists is not readily observable. This puts high demands on the definition of proxies and/or the selection of the non-lobbyists sample. Either proxies need to be used that do not interfere with the not examined issue (i.e., size might explain the lobbying decision and position, and might be flawed by multicollinearity), or appropriate samples need to be defined that neutralize the not examined issue (i.e., matched samples according to size and industry to examine the lobbying position). Yet, most studies that compared samples of submitting/non-submitting firms do not separate whether their regression should explain the lobbying position or decision. Thus, those studies are included in both Category 2 and 3 with the respectively fitting results. Two studies (Georgiou & Roberts 2004; Koh 2011) achieve progress on this issue and examine the lobbying position and decision in an integrated manner by using two-nested multivariate or multinomial regression models. Their studies deliver better results, in particular on the lobbying decision.

Category 1: Empirical Studies on Lobbying Position

Turning to Category 1, studies presented in Table 3 follow the methodology applied by W&Z (1978). Through a content analysis of submitted CLs, preparers are clustered according to their lobbying positions, i.e. into opposing/supporting groups. Next, studies typically test whether hypothesized proxies are statistically significant (univariate and/or multivariate regressions) in explaining variations of lobbying positions. In addition, few studies utilize surveys to deepen the understanding of the lobbying position. Thus, findings of these studies help to understand why preparers take certain lobbying positions with respect to the proposed standard. Yet, as indicated, the sample implicitly also includes preparers that made a positive lobbying decision before submission, and thereby, findings do not explain non-submitting preparers' preference.

Up to date, one can observe that research closely followed the proxies suggested in the early stages of positive accounting research. Three types of proxies, which W&Z (1990) supposed to be most valuable in explaining empirical regularities, were approved on a case-by-case basis. Proxies attached to management compensation proved valid to explain lobbying positions for certain standards. Research suggests that preparers' opposition is self-motivated by the desire to avoid adverse effects on compensations (Dechow 1996). Proxies related to leverage best explain lobbying positions with regards to accounting standards, which impact the level of volatility of firms' reported earnings. This relation is hypothesized as high leverage firms might need to amend credit agreements as they otherwise run danger of technical defaults (Koh 2011). Proxies of political visibility such as firm size were found useful to explain preparers' reactions to standards that impact the level of earnings' volatility. But as opposed to leverage, with opposite signs – although other papers question if this argument holds true in nowadays business environment (Georgiou & Roberts 2004). Favorability in terms of firm size and profits might have changed direction and the usage of size as a proxy might lead to conflicting results, as it is commonly used to also explain the lobbying decision. Besides, research approved that other proxies, like compliance costs and disclosure proprietary costs, can contribute to explain preparers' lobbying positions (Sutton 1988; Hill et al. 2002; Katselas et al. 2011).

Table 3: Summary of Empirical Studies on Lobbying Position (Category 1)		
<u>(Author[s] Year)</u>	<u>Research Object</u>	<u>Association of Lobbying Position with Following Proxies</u>
(Dhaliwal 1982)	FASB / Interest Costs (SFAS 24)	Association with <u>leverage</u> (D/E) and <u>political visibility</u> (size); both after controlling for direction of expected earnings effect
(Sutton 1988)	ASB / Current Cost Accounting (ED 18)	Association with <u>political visibility</u> (subject to governmental investigations) and <u>specific proxies</u> (PPE revaluation; compliance costs)
(Pacecca 1995)	AASB / FX Translation (ASRB 411)	Association with <u>leverage</u> (D/A; interest coverage ratio) and <u>political visibility</u> (profit level)
(Dechow et al. 1996)	FASB / Stock-based Comp. (SFAS 123)	Association with <u>compensation</u> (total comp. level; stock options in executive comp. as %)
(Hill et al. 2002)	FASB / Stock-based Comp. (SFAS 123)	Association with <u>compensation</u> (stock options in executive comp. as %)
(Wilson & Ahmed 2002)	AASB / Purchased Goodwill (ED 68)	Association with <u>leverage</u> (interest coverage ratio; not D/E) and <u>political visibility</u> (industry membership/sensitivity; firm size)
(Georgiou & Roberts 2004)	ASB / Deferred Taxes (FRS 19)	Association with <u>compensation</u> (exp. comp. effects) and <u>leverage</u> (debt covenant index); public proxies for covenants and comp. equally good
(Katselas et al. 2011)	IASB / Operating Segments (ED 8)	Association with <u>political visibility</u> (firm size) and <u>specific proxy</u> (number of segments due to disclosure proprietary costs)
(Koh 2011)	FASB / Stock-based Comp. (SFAS 123)	Association with <u>leverage</u> (retained earnings covenant) and <u>specific proxy</u> (industry membership hightech); no management compensation effect

Overall, the empirical evidence for the mentioned proxies confirms the standpoint of positive accounting choice research that economic theory on contracting costs can – at least on a case-by-case basis – explain variations of lobbying positions among lobbyists.

Category 2: Empirical Studies on Lobbying Position

Next, in Table 4, we present empirical findings on the lobbying position of studies classified as Category 2. As explained, these studies draw inferences by testing which hypothesized proxies explain variations in the lobbying positions of submitting/non-submitting preparers. Yet, one needs to consider potential flaws as those studies, most of them also classified as Category 3, compare the overall lobbying rationale. Yet, depending on the research design (proxy and sample choice), some studies tend to isolate the lobbying position and neutralize / exclude the lobbying decision. Although using a different empirical setting, Category 2 studies also

Table 4: Summary of Empirical Studies on Lobbying Position (Category 2)		
<u>(Author[s] Year)</u>	<u>Research Object</u>	<u>Association of Lobbying Position with Following Proxies</u>
(Griffin 1982)	FASB / FX Translation (SFAS 8)	Association with <u>leverage</u> (D/E) and <u>political visibility</u> (firm size), but not with other specific proxy (FX earnings volatility)
(Kelly 1982)	FASB / FX Translation (SFAS 8)	Association with <u>compensation</u> (management stock ownership), <u>leverage</u> (bond covenants) and <u>political visibility</u> (asset size)
(Francis 1987)	FASB / Pension Accounting (SFAS 87)	Association with <u>political visibility</u> (firm size) and other <u>specific proxy</u> (adverse financial statement effects)
(Deakin 1989)	FASB / Oil and Gas Industry (SFAS 19)	Association with <u>compensation</u> (management comp. plan), <u>leverage</u> (covenants), <u>political visibility</u> (subject to rate setting) and other <u>specific proxy</u> (adverse financial statement effects)
(Ndubizu et al. 1993)	FASB / Pension Accounting (SFAS 87)	Association with <u>leverage</u> (covenants) and other <u>specific proxies</u> (earnings volatility; pension expenses); variations depending on content-wise positions
(Schalow 1995)	FASB / Postretirement Benefits (SFAS 106)	Association with other <u>specific proxy</u> (number of retirees)
(Ang & Gallery 2000)	AASB / Employee Entitlements (S 1028)	Association with other <u>specific proxies</u> (usage of defined benefit pension plans; earnings volatility)
(Georgiou 2005)	ASB / Selection of 28 EDS	Association with <u>leverage</u> (debt covenant index) and other <u>specific proxy</u> (US listings) for income-related issues; no management compensation effect

supported – on a case-by-case basis – the three proxy types suggested by positive accounting theory, i.e. political visibility, compensation and leverage; yet, with decreasing support for the governmental intervention argument over time, both theoretically and empirically.

Importantly, empirical research found that standard-specific proxies, which capture adverse financial statement effects, often best explain lobbying positions. For example, proxies which capture expected profit effects via estimation models or simple indicators, such as the number of retirees for pension accounting standard changes (Schalow 1995), perform well. Related to this, research found indications that the resulting earnings volatility can explain the lobbying position for standards with adverse profit effects (Griffin 1982; Ndubizu et al. 1993; Ang et al. 2000). Last, some studies showed that international cross-listings (in particular, in the US) impact a preparer's lobbying position, i.e. towards FASB convergence (Georgiou 2005).

Category 3: Empirical Studies on Lobbying Decision

Table 5: Summary of Empirical Studies on Lobbying Decision (Category 3)		
(Author[s] Year)	Research Object	Association of Lobbying Decision with Following Proxies
(Francis 1987)	FASB / Pension Accounting (SFAS 87)	Association with <u>firm size</u> (the larger, the more likely to lobby)
(Ndubizu et al. 1993)	FASB / Pension Accounting (SFAS 87)	Association with <u>firm size</u> for lobbying on balance sheet related positions (the larger, the more likely to lobby); not income statement positions
(Schalow 1995)	FASB / Postretirement Benefits (SFAS 106)	Association with <u>firm size</u> (the larger, the more likely to lobby) and direction of <u>accounting position</u> (if supporting position, less likely to lobby); accounting position of non-lobbyists derived from parallel survey
(Larson 1997)	IASB / Selection of 20 EDs	Association with <u>international cross-listings</u> (number of cross-listings; US listing for non-US companies)
(Ang & Gallery 2000)	AASB / Employee Entitlements (S 1028)	Association with <u>firm size</u> (the larger, the more likely to lobby)
(Georgiou & Roberts 2004)	ASB / Deferred Taxes (FRS 19)	Association with <u>firm size</u> (the larger, the more likely to lobby) and <u>past lobbying behavior</u> (n. of submitted CLs; the more, the more likely to lobby)
(Georgiou 2005)	ASB / Selection of 28 EDS	Association with <u>firm size</u> (the larger, the more likely to lobby) especially significant for disclosure related standard changes
(Koh 2011)	FASB / Stock-based Comp. (SFAS 123)	Association with <u>firm size</u> (the larger, the more likely to lobby), <u>peer pressure</u> (number of lobbying firms from industry; the more, the more likely), and <u>corp. governance strength</u> (board independence; the better, the more likely)

Now focusing on empirics about the lobbying decision, we present relevant findings of studies classified as Category 3 in Table 5. Many studies have already been referred to for the lobbying position beforehand. Studies of Category 3, at least implicitly, draw conclusions on preparers' lobbying decision by testing samples of submitting/non-submitting firms on proposed proxies. As a result, findings explain what drives firms either to submit or not to submit a CL in due processes, independent of the underlying lobbying position. Yet, the already mentioned flaws also apply to those studies, as the tested proxies might interfere with the lobbying position, which would optimally be neutralized, but which is not readily observable for non-lobbyists.

Studies summarized in Table 5 above nearly unanimously confirmed the association of firm size with lobbying decisions. This is of little surprise, considering that it was hypothesized that size best captures lobbying decisions, including the relative cost-benefits, the marginal probability, economies of scale, free-riding and informational effects (see Part 2.1.3).

Yet, research also revealed five other proxies of interest, which can supplement the firm size to explain lobbying decisions. First, Schalow (1995) showed that preparers are more likely to decide to lobby when they oppose the proposed standard (DP/ED). Thus, the lobbying position is a proxy itself. This is due to the perceived need and benefits of lobbying. Second, Larson (1997) proved that international cross-listings partly explain preparers' lobbying decision, especially for firms with US cross-listings. This might be due to the fact that preparers subject to multiple accounting regimes are driven to participate in IFRS due processes to promote the legitimacy of the IASB, since cross-listed companies have a high interest in global convergence of accounting standards. Third, past lobbying behavior, in terms of the number of previously submitted CLs, is found to contribute to the lobbying decision (Georgiou & Roberts 2004). The authors argued that this is due to economies of scale, the perceived likelihood of success, and experience. Fourth, Koh (2011) found that peer pressure, defined as the number of lobbying industry peers, drives preparers' decision to lobby, i.e. by influencing the perceived importance of the issue. Last, Koh (2011) also found support for the proposition that firms with strong corporate governance, especially high board independence, tend to positively decide to lobby on accounting issues. The two last proxies by Koh can be seen as a social dimension that was added to the otherwise dominating economic sphere.

Overall, empirical research approved additional crucial empirical associations with regards to the lobbying decision. Yet, it partly lacks more thorough consideration of issues such as free-riding, collective lobbying, informational effects and the concept of multiple voices.

Category 4: Other Empirical Studies on Lobbying Rationale

Last, we turn to other empirical studies (see Table 6), which deliver mostly indirect insights to explain preparers' lobbying rationale. Most studies conduct statistical analyses of public data on participation via CL submissions in accounting standard due processes. Some studies also use survey data to complement public data and understand non-lobbyists' rationale.

Table 6: Summary of Other Empirical Studies on Lobbying Rationale (Category 4)		
[Author[s] Year]	Research Object	Key Findings Related to Lobbying Rationale
(MacArthur 1988a)	ASB / Selection of 27 EDs	<u>Evidence on preparers' lobbying position</u> : Association of the number and volume of preparers' CLs with the perceived economic consequences of the change
(MacArthur 1988b)	ASB / Selection of 31 EDs	<u>Evidence on accounting firms</u> : No statistically significant association between accounting firms and preparers' lobbying positions
(McKee et al. 1991)	FASB / FX Translation (SFAS 8)	<u>Evidence on accounting firms</u> : Association between accounting firms and preparers' argument direction; not type of argument; contradicting MacArthur
(Nobes 1991)	ASB / Selection of 5 Issues	<u>Evidence on lobbying positions</u> : Proposed model of due process cycles; preparers lobbying against, other constituents for standardization
(Tandy & Wilburn 1992)	FASB / Selection of SFAS 1-100	<u>Evidence on constituent participation</u> : Highest for preparers (60.7%), followed by accounting professionals and banking; highest for completely revised, new standards (especially for preparers, accounting professionals and academics); other constituents show constant participation; overall, lack of user participation
(Schalow 1995)	FASB / Postretirement Benefits (SFAS 106)	<u>Evidence on preparers' lobbying decision</u> : Did not submit CL due to low perceived influence (52%), high costs (29%), support for proposed standard (11%) and taken collective action (5%); also, 40% of submitters were encouraged by industry associations to lobby; 30% of those firms lobbied due to this 'encouragement'
(Tandy & Wilburn 1996)	FASB / Selection of SFAS 1-117	<u>Evidence on academic participation</u> : Low participation due to low perceived impact; lack of time or resources, inadequate rewards at universities, and technical nature of issues; if submission, then because of personal concern or related research
(Saemann 1999)	FASB / Selection of 31 EDs	<u>Evidence on industry associations' lobbying position</u> : Oppose costly disclosures and proposals leading to earnings volatility; yet, partly support user-related issues

(Georgiou 2004)	IASB / Generic	<u>Evidence on preparers' lobbying activities:</u> High association between preparers' CL content and other lobbying activities; high perceived lobbying influence of lobbyists (lobbying decision); lobbying activities center around comment periods
(Larson 2007)	IASB / Selection of 18 IFRICs	<u>Evidence on constituent participation:</u> Most submissions from E.U. (50%); main submitters were preparers (31%), regulators (26%) and accounting profession (36%)
(Yen et al. 2007)	FASB / Compreh. Income (SFAS 130)	<u>Evidence on CL contents:</u> Preparers use mainly outcome-oriented (96%) but also definitional (70%), scope (22%) and due process (10%) arguments
(Georgiou 2010)	IASB / Generic	<u>Evidence on user participation:</u> Users tend to take collective action through interest groups; individual users perceive their influence as low (lobbying decision)

The evidence presented above contributes to our understanding of suggestions in theoretical works. With regards to the lobbying position, it was shown that preparers tend to submit more and longer CLs when proposed standards have adverse economic effects (McArthur 1988a). This is in line with positive accounting research, as well as statistics that prove that a majority of preparers uses outcome-oriented, not accounting arguments (Yen et al. 2007). This goes hand in hand with the finding that industry associations lobby strongest against standards that lead to costly disclosures or earnings volatility (Saemann 1999). Nobes (1991) found evidence showing that preparers tend to oppose to accounting standardization, unlike other remaining constituents. Evidence shows that accounting firms tend to take the same direction as their clients (McKee et al. 1993); yet, other papers did not support this conflict (McArthur 1988b).

Regarding the lobbying decision, evidence of particular interest has been provided. The survey conducted by Schalow (1995) depicted the drivers of lobbying decisions. Despite doubts in research (Lindahl 1987), costs of CL submissions still seem to be of major concern to non-lobbyists (29%). This adds relevance to Olson's model for accounting standard setting. Further, the low perceived influence stopped most preparers from lobbying (52%). Aligned with this, lobbying firms perceive their submission to be influential (Georgiou 2004). Besides, Schalow also found support that some preparers decide not to lobby as they support the proposed standard change (11%). Last, Schalow (1995) showed that industry groups actively encourage members to lobby, which is interesting considering collective lobbying. For other constituents, analyses of participation showed a lack of participation by users and academia due to low perceived influence (Tandy & Wilburn 1996; Larson 2007). Next to preparers (31%), statistics on IASB due processes showed that accounting professionals (36%) and regulators (26%), i.e. national standard setters, substantially contribute to the CL submissions (Larson 2007).

Last, we want to stress Georgiou's evidence (2004) that CL submissions are representative also for other non-observable lobbying activities in due processes, thereby supporting the validity of empirical research focusing on CLs to examine lobbying positions.

2.1.4 Conclusion

This subchapter covered literature on preparers' lobbying rationale. Regarding the lobbying position, we discussed W&Z's papers (1978; 1979; 1990) and the school of positive accounting choice. Next, we introduced Downs' (1957) and Olson's (1971) economic models of political process, Chung's extension (1999) and the application on lobbying decisions in accounting standard setting. We finished the theoretical review with Elbannan and McKinley's framework (2006), before presenting four categories of empirics on the lobbying rationale (Tables 3-6).

Table 7: Summary of Proxies for Lobbying Position			
Proxy Type	Measure	Expected Lobbying Position	Reasoning
Leverage	D/E, D/A, defined covenant KPIs, covenant index	Preparers with <u>high leverage</u> will tend to take a <u>negative lobbying position</u> on standards that negatively impact covenant KPIs or leverage itself	Re-negotiation and bankruptcy costs; financing access
Management compensation	Measures capturing extent of variables comp. schemes	Managers, subject to <u>variable schemes</u> , will tend to take a <u>negative lobbying position</u> on standards that are expected to negatively impact own compensation	Agency costs and managerial self-interest
Political visibility	Firm size, profit level, industry sensitivity indices, rate setting	Preparers, subject to <u>high political visibility</u> , will tend to take a <u>positive lobbying position</u> on standards that reduce visibility (earnings)	Political intervention argument
Expected adverse financial effects	Estimate of adverse financial effect	Preparers will tend to take a <u>negative lobbying position</u> on standards that lead to adverse financial effects	Uncertainty, value maximization
Standard compliance costs	Measure capturing compliance effort	Preparers will tend to take a <u>negative lobbying position</u> on standards that are expected to create relatively high standard compliance costs	Compliance costs (book-keeping and information costs)
Disclosure proprietary costs	Measure capturing disclosure proprietary	Preparers will tend to take a <u>negative lobbying position</u> on standards that are expected to create relatively high proprietary costs due to <u>sensitive disclosures</u>	Disclosure proprietary costs
International cross-listings	US cross-listings, number of int'l cross-listings	Preparers with relatively more international <u>cross-listings</u> / with US listings will tend to take <u>lobbying positions favoring global standard convergence</u>	Compliance costs (book-keeping and information costs)

We find that for both elements of the lobbying rationale economic theories dominate in literature and are widely accepted to explain preparers' lobbying activities. In particular, research suggests that the lobbying position is driven by expected economic consequences of proposed standards (Watts & Zimmerman 1978). Adverse economic effects are approximated by proxies that try to capture subsequent contracting costs, i.e. standard compliance costs and covenant amendment costs. Empirical research found support for those economic proxies, but further confirmed other proxies, i.e. proxies considering social dimensions of lobbying. Above, Table 7 summarizes proxies of preparers' lobbying position, which were empirically proven.

Empirical results on management compensation as a proxy were mixed and the usage of this proxy is only aligned with the paradigm of managerial self-interest. The political visibility proxy has found decreasing empirical confirmation and attention over time, since the governmental intervention argument lost relevance, and size was used to approximate lobbying decisions.

Turning to the lobbying decision, our review showed the importance of economical and game-theoretical considerations (Downs 1957; Olson 1971; Lindahl 1987; Chung 1999). Especially the notion of accounting standards being public goods leads to considerations exceeding typical cost-benefit frameworks. We explained the concepts of free-riding, multiple voices, collective lobbying and informational effects. Those ideas play an important role, next to the critical role of perceived influence on the standard setting process. While size is generally accepted as the most relevant proxy, alternatives, i.e. social variables, have been suggested and proven. Below, Table 8 summarizes proxies for the lobbying decision. Yet, both Tables 7 and 8 only show empirically proven proxies of the lobbying rationale, but could be extended by other potential proxies, i.e. by Elbannan and McKinley's (2006) propositions, which were not proven to date.

Table 8: Summary of Proxies for Lobbying Decision			
Proxy Type	Measure	Expected Lobbying Decision	Reasoning
Firm size	Total assets, revenues, market capitalization	Preparers with <u>larger firm size</u> will tend to <u>positively decide</u> to lobby	Relative costs, free-riding, scale effects, perceived influence
Lobbying position	Observed lobbying position in CLs (coding)	Preparers whose <u>lobbying position is contrary</u> to the proposed standard will tend to <u>positively decide</u> to lobby; and vice versa	Perceived need for and benefit of lobbying
International cross-listings	US cross-listings, number of int'l cross-listings	Preparers with relatively more international <u>cross-listings</u> / with US listings will tend to <u>positively decide</u> to lobby	IASB legitimacy, higher relative benefits of favorable outcome
Past lobbying behavior	Number of (successful) CL submissions	Preparers with a <u>longer lobbying history</u> marked by many (successfully) submitted CLs will tend to <u>positively decide</u> to lobby	Economies of scale, experience, higher perceived influence
Peer pressure	Number of lobbying firms from industry	Preparers who are subject to <u>peer pressure</u> , i.e. many CL submission from peers, will tend to <u>positively decide</u> to lobby	Psychological peer pressure, perceived importance, concept of multiple voices
Corporate governance	Corporate governance index (independence)	Preparers with <u>strong corporate governance</u> will tend to <u>positively decide</u> to lobby	Value maximization though contracting efficiency

Our review of empirics (Category 4 studies) delivered valuable evidence. Particular findings we want to stress once again. Preparers tend to submit CLs on standards when they fear adverse economic consequences (McArthur 1988a), and accordingly, they tend to use outcome-oriented, not accounting arguments in CLs (Yen et al. 2007). It was found that the costs of submitting are still substantially high enough to stop preparers from lobbying (Schalow 1995), thus submitting CLs must be more than a vote, in contrast to what Lindahl (1987) supposed. Thus, the introduced models on lobbying decisions gain validity. Next, the perceived influence seems to be crucial to the lobbying decision, and therefore, deserves particular interest. The matter of influence is covered in Chapter 2.2 as well. Further, as industry associations actively encourage members to lobby (Schalow 1995), there is a need to consider this fact in the light of collective lobbying. Last, and most importantly, CL submissions were found representative for preparers' overall lobbying activities (Georgiou 2004). Thus, this evidence delivered crucial support for the approach to examine the lobbying rationale and impact based on CLs.

In our empirical literature review, we found that literature to date does not cover accounting standards on leases as a case study. Hence, no insights exist on preparers' lobbying rationale in the current due process and for previous discussions (amendments to IAS 17 and SFAS 13). Only Beattie et al. (2006), referring to their survey among preparers and users, came to the conclusion that substantial differences in surveyed preferences might lead to intensive lobbying activities among constituents. Yet, for the purpose of our thesis, the presented research on the other accounting standards builds a solid foundation.

2.2 Research on Lobbying Impact

Next, we turn to research on the second element, preparers' lobbying impact on accounting standard setting, meaning literature covering the outcome (degree of success) of lobbying activities. While the corporate lobbying rationale is an area marked by wide research interest, far less literature exists about the subsequent actual impact of preparers' lobbying activities. Yet, to get a holistic picture of corporate lobbying in specific due processes, the outcome is of crucial importance to judge upon the overall issue. One further reason is that the perceived lobbying impact already affects preparer's lobbying decisions, and thus, linkages also exist on

other analytical levels. Accordingly, literature demands to connect the lobbying rationale and lobbying impact (Georgiou 2005).

2.2.1 Theories

Typically, theoretical papers of this research stream referred to a variety of science disciplines to explain due process outcomes. As no commonly accepted theory dominates, this stream of research is marked by heterogeneity. Few direct linkages between models exist. Subsequently introduced papers applied models that stem from disciplines, like social innovation processes, decision making processes, institutional theories and power relation theories, in order to explain the impact of lobbying activities on accounting standard setting.

Social Innovation Process Models

Hussein (1981) proposed a model of social innovation processes to explain the outcome of accounting standard setting. In general, the model is based on the importance of change agents, perceived effects (not objective effects) and the climate for change (perceived need for, openness to, perceived control over and commitment to change). With specific regards to the lobbying impact, Hussein supposed that constituents “engage in an implicit bargaining exchange to reach a compromise solution” (1981, p.30) within the context of due processes. Importantly, he stressed that no group has the power to dominate the outcome by imposing preferences on others. Also, he argued that in this type of innovation processes, constituents’ positions are not limited to either support or oppose the proposed standard changes. As a result of the non-domination, they will try to impact the outcome by suggesting modified standards (as part of their defined lobbying position).

Decision Making Models

Cheshire and Feroz (1989) applied Allison’s (1971) three decision making models of political processes on the FASB standard setting process. The models were described as follows (Cheshire & Feroz 1989, p.119f): 1) rational actor (decisions according to value-maximization principle, evaluating different scenarios); 2) organizational actor (decisions according to pre-established principles); and 3) political actor (decisions in political bargaining process).

Cheshire and Feroz (1989) apply these models on four cases of FASB due processes. Out of those, two standards were best explained by Type 1 and two others by Type 2. No Type 3 was found to be present. For all four cases they argued that none of the examples was well explained by the political actor model, as the FASB “did not act in an ad hoc fashion concerned only with serving interest groups” (Cheshire & Feroz 1989, p.126). With regards to this, the authors criticized the inflationary usage of the term ‘political process’ in accounting research. They argued that the term is often used to explain due processes which actually follow models of Type 1 and 2, where the constituents’ lobbying positions partly coincide with the targeted outcome, but are actually explained by rationality or principle-based cohesiveness.

Institutional Theory

Kenny and Larson (1993) suggested applying institutional theory in order to examine IASB [formerly IASC] due processes and the resulting lobbying impact on standard setters. They criticized that research lacks focus on the lobbying impact, and stressed the importance to consider “the strategy of the standards-setting organization to deal with and/or encourage participation” (Kenny & Larson 1993, p.538).

Within its social network, the IASB is subject to lobbying influences. These interactions with constituents' in the due process will subsequently impact the IASB's internal re-deliberations of standards. As most institutions, the IASB needs to strive for legitimacy among constituents, especially considering its resource dependence (mandating authority of national standard setters; funding; rhetoric support). Therefore, institutional theory suggests that "organizations will continuously monitor the needs and influences of their constituencies and will adjust accordingly to meet those needs" (Kenny & Larson 1993, p.538). Further, it supposes that the IASB might "accommodate the strongest wishes of its constituency" in a "give and take" process, and thereby, the IASB "enhances the organization's acceptability without seriously impairing its integrity" (Kenny & Larson 1993, p.539). According to the authors, this might lead to flexibility in standard setting and also explains observed lobbying impacts.

Kenny and Larson (1993) found empirical support for their derived institutional theory-based propositions by examining the IASB's due process on Joint Ventures (IAS 31). A side-finding was that large firms are most influential with regards to their lobbying impact.

Concepts of Power

Kwok and Sharp (2005) aimed at examining the IASB (formerly IASC) due process with regards to the distribution and exercise of power. Their particular contribution results from the formalization of the IASB due process in their "Power Model of IASC Policy Making", shown in Figure 2 and described below, mainly based on existing ideas. In the model, Kwok and Sharp (2005) include four constituent groups of external actors (EA 1-4), i.e. users, management (preparers), accountants and regulators (national standard setters). They separate among three variables of power (borrowing from Hussein & Ketz 1991), namely ability (Ab; resources and inherent influence), constraints (Co; limits to abilities or discouraging interests) and opportunities (op; channels of power, i.e. due process participation). Power, in this sense, results in the external actors' ability (considering constraints and suggesting the opportunity)

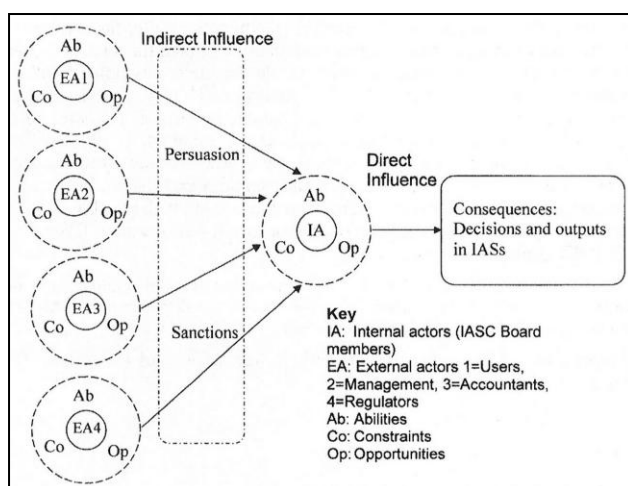


Figure 2: The Power Model of IASC Policy Making (Kwok & Sharp 2006, p.79)

to influence internal actors (IA; IASB board members and staff), who directly influence the outcome, i.e. the final IAS, through decision making power. The degree to which the indirect influences explain the outcome is what we refer to as lobbying impact in our study.

Kwok and Sharp (2005) tested the model empirically on two cases. They examined the relation of constituents' lobbying position and the final standard outcome (consequences): Their empirical results indicated that the final outcome is tendency-wise aligned with preparers' lobbying positions, which tends to differ from other constituents' position. The authors supposed that "it is difficult for the process to promulgate a standard adverse to the preferences of preparers" and that "in order to achieve consensus, the final standards are weaker than the initial drafts because more flexible interpretation is allowed" (Kwok & Sharp 2005, p.95). They conclude that although preparers' are most impactful, the due process is still subject to 'mixed powers'. Besides, they found that preparers did not use means of sanctions, while the usage of persuasion was predominant. Finally, and despite different theoretical backgrounds, aligned with the other authors, they also concluded that the IASB due process leads to a "strategic consensus [...] through a series of negotiations, compromises, and consideration of both technical and political issues" (Kwok & Sharp 2005, p.95).

Kwok and Sharp solely observed the "public paths of influence" (2005, p.95). While they agreed that there is a danger of non-traceable "covert pressures" that might lead to significant standard dynamics, they saw no signs for "any secret exercise of power" (Kwok & Sharp 2005, p.95). In general, they suppose that this is unlikely to happen due to the process transparency and the importance the IASB attaches to the public path of lobbying.

The Black Box Concept

Opposing Kwok and Sharp's above statement (2005), that it is unlikely to see non-public usage of lobbying power, Cortese and Irvine (2010) examined IASB due processes, supposing that covert pressures do exist. Hence, they analyzed the case of IFRS 6 (Exploration and Evaluation of Mineral Resources). The case suggested that major due process dynamics can neither be explained by technical arguments nor by public lobbying influences. Thus, they saw a "disconnect between the visible input and visible output", which "[infers] the existence of a black box in the standard setting process within which the unseen influences of powerful constituents act as a countervailing force against visible opinion" (Cortese & Irvine 2010, p.88).

2.2.2 Empirics

Empirical research on (preparers') lobbying impact mostly compared due process dynamics (changes from DP/ED to the final standard) with the lobbying positions of constituent groups, preparers or industries, depending on the research focus. Based on this analysis, researchers mostly judge upon the lobbying impact of lobbying activities, such as CL submissions. Thereby, they treat the due process as a 'black box', as they only focus on visible inputs (mostly CLs) and outcomes. Some papers also consider alternative explanations for IASB decisions by trying to understand what happens 'within the black box'. Table 9 summarizes empirical key findings of selected studies, including the empirical findings related to the theories from the previous section, about preparers' lobbying impact on accounting standard setting.

The overview shows that studies almost unanimously concluded that the outcome of standard setting due processes is impacted by preparers' lobbying positions. While most papers clearly support preparers' impact, other papers state that at least the most important concerns of preparers were addressed by standard setters (Geiger 1989; Yen et al. 2007). Thus, researchers concluded that standard setters seek for consensus among constituents (Brown 1981; Kwok &

Sharp 2005). Only Cheshire and Feroz (1989) in an early paper concluded that changes in their case studies were based on other than political considerations, raising attention that positions might coincide with the outcome for other reasons, i.e. technical accounting arguments.

Table 9: Summary of Empirical Studies on Lobbying Impact		
(Author[s] Year)	Research Object	Lobbying Impact of CL Submissions on Standard Outcome
(Brown 1981)	FASB / 9 Discussion Papers	Major differences between outcomes and lobbying positions of constituents, indicating an attempt to <u>compromise</u> by FASB
(Hope & Gray 1982)	ASB / Research & Development (SSAP 13)	Approved due to alignment of outcome and firms' business interests; yet, changes only partly aligned with CL's lobbying positions, suggesting <u>hidden lobbying</u>
(Cheshire & Feroz 1989)	FASB / 4 Discussion Papers	<u>Not approved</u> as the outcome is the result of the FASB addressing crucial issues or sticking to accounting principles (few signs of political decisions)
(Geiger 1989)	ASB / Audit Reports (SAS 58)	Approved due to alignment of outcome and the lobbying positions; <u>main CL arguments of lobbyists were addressed</u> and issues resolved
(Brown & Feroz 1992)	FASB / General Price Level Adj. (SFAS 13)	Approved due to alignment of outcome and the preparer's lobbying positions; <u>large (sales) and multi-segment firms with highest influence</u> on the outcome
(Kenny & Larson 1993)	IASB / Interest in Joint Ventures (IAS 31)	Approved due to alignment of outcome and the preparer's lobbying positions; <u>large (sales) firms with highest influence</u> on the outcome
(Rahman et al. 1994)	NZSA / Investment Property (SSAP 17)	In general, approved; yet, <u>pluralistic process</u> ; accounting firms (Big8) followed by <u>preparers with highest influence</u> on the outcome
(McLeay et al. 2000)	ASCG / 4th European Company Law Directive	Approved due to alignment of outcome and the preparer's lobbying positions; yet, <u>support by either academia or accounting firms needed</u> to exert impact
(Kwok & Sharp 2005)	IASB / Intangibles & Segments (IAS 14)	Approved due to alignment of outcome and lobbying positions; <u>preparers with highest influence</u> on the outcome; <u>strategic consensus</u>
(Yen et al. 2007)	FASB / Comprehensive Income (SFAS 130)	Approved due to alignment of outcome and preparer's lobbying positions; main arguments of CLs addressed and <u>alternative suggested models considered</u>
(Cortese & Irvine 2010)	IASB / Mineral Resources (IFRS 6)	Lobbying impact assumed; but <u>disconnect between lobbying position and outcome</u> , seen as indication for the impact of <u>non-public hidden lobbying activities</u>

Besides, some papers did not approve the impact for public lobbying positions, but generally accepted the influence of the overall lobbying activities (Hope & Gray 1982; Cortese & Irvine 2010). Thus, they suggested that hidden lobbying activities explain this deviation. Yet, it stands in contrast to evidence that CL lobbying positions are representative of other 'hidden' activities (Georgiou 2004). We presume that Hope and Gray's paper (1982) might be outdated as the official tracks of due processes were reinforced since then. Also, one might award Cortese and Irvine's finding (2010) to the special case they purposely chose to examine the 'black box' IASB. Yet, both studies' findings should raise our awareness that disconnects between the input and outcome might be explained by other attributes than ignorance of lobbying positions.

However, most papers confirmed constituents' lobbying influence. Mostly, research attributed the highest impact to preparers, in particular to large firms (i.e., Kenny & Larson 1993; Rahman et al. 1994). This is well in line with the empirical evidence that size is the best proxy of the lobbying decision, i.e. due to large firms' high perceived influence (see Part 2.1.3). Influence is mainly exerted through the submissions of CLs during comment periods. Cross-checking the impact with other involved constituent groups, some papers concluded that preparers' success depends on the support of either academia or accounting firms (McLeay et al. 2000).

2.2.3 Conclusion

In this subchapter, we reviewed literature covering preparer's lobbying impact. Therefore, we presented five theoretical papers that applied models and concepts from different disciplines on accounting standard setting, i.e. models of social innovation processes, political decision making, institutional theory and power concepts. Also, we presented a variety of important

empirical findings. In conclusion, we find that no commonly accepted theory on the preparer's lobbying impact exists. Moreover, theoretical frameworks on this issue are rare, borrow from

Table 10: Summary of Key Findings on Lobbying Impact	
Issue	Supposed Key Finding
Overall impact	Preparers' lobbying does significantly <u>impact the due process outcome</u> . Yet, preparers do <u>not dominate</u> the due process and its outcome.
Strategy	Being aware of the 'bargaining process', preparers tend to <u>avoid total opposition</u> , but clearly <u>state preferences on key issues</u> , i.e. by making compromising, <u>modified proposals</u> .
Other constituents	The due process outcome is an achieved <u>consensus among constituents</u> , which makes it recommendable to <u>consider all constituents influence</u> in analyses.
Lobbying channel	In most cases, the outcome can be explained following the ' <u>public path of influence</u> ' <u>assuming no hidden lobbying activities</u> . Hence, it is appropriate to use <u>CL for the analysis</u> .
Outcome	The outcome tends to be <u>biased towards preparers' lobbying positions</u> . Tendentially, due process dynamics lead to a <u>weakening of proposed standards</u> that allow for more flexibility.
Alternative explanations	When analyzing the lobbying impact, potential <u>hidden lobbying activities</u> and accidentally <u>coinciding alternative technical explanations</u> of IASB decisions need to be considered.

various disciplines and resemble to a certain degree 'a scientific piecemeal', since nearly no advancements or direct references are traceable over time. Yet, the presented literature offers several starting points and raises awareness. Following, we present our key take-aways.

It is widely recognized that preparers' lobbying does impact the due process outcome in IASB standard setting. The IASB's responsiveness to lobbying is supposedly due to its institutional character, which results from the IASB's striving for legitimacy and resources (Kenny & Larson 1993). Thus, it is suggested that the IASB strives for equilibrated compromises, trading off technical and political solutions (Kwok & Sharp 2006). Thus, preparers are not expected to dominate the outcome. The standard setting process is supposed to be a "give and take' process" (Kenny & Larson 1993, p.539) leading to the outcome being a "strategic consensus" (Kwok & Sharp 2006, p.95). As a result, preparers are only expected to succeed marginally; yet, on critical key issues (Kenny & Larson 1993). This is confirmed by empirical research presented before, which finds final standards to be tendency-wise biased towards preparers' lobbying positions, i.e. by weakening rules and allowing for flexibility (Kwok & Sharp 2006; Table 9).

As preparers are aware of their marginal lobbying impact, CLs are expected to reflect partial not total opposition, coupled with modified proposals, included in CLs (Hussein 1981; Kenny & Larson 1993). In general, it is likely that in most cases preparers will follow the "public path of influence" and not exercise hidden lobbying activities (Kwok & Sharp 2006). Yet, in some cases, outcome may be affected by behind-the-scenes lobbying, which requires full awareness when comparing due process inputs and outcomes (Cortese & Irvine 2010). Related to this, caution is demanded when reasoning whether the outcome is the result of visible and hidden lobbying, i.e. political processes, or not. Alternatively, technical explanations for IASB decisions that only coincide with preparers' lobbying positions need to be taken into account to prevent too readily references to the political lobbying argumentation (Cheshire & Feroz 1989).

Overall, reviewed literature verifies the thesis' underlying idea of preparers' potential lobbying impact on standard setting due processes. Studies directly referring to former or recent due processes on leases do not exist to date. Supposed explanations, impact patterns and potential flaws were pointed out and will be considered in the analysis, especially in Chapter 8.

3. The Case: Lease Accounting and Standard Setting

In order to proceed with our analysis on the lobbying rationale of preparers, it is crucial to have a complete picture of the accounting standard and the respective current due process project, which represent – next to the literature review – the foundation that guides our discussion throughout the whole thesis. The overall aim of this chapter is to introduce our case study, i.e. the ongoing lease accounting project. Understanding the proposed changes on the existing lessee accounting standard represents the starting point for the analysis of potential effects on preparers (Chapter 4); the derived effects in combination with the literature review about preparers' lobbying rationale (Chapter 2) will then help us to formulate our hypotheses on the expected lobbying positions and lobbying decisions of preparers towards the new lease standard (Chapter 5). Besides, this chapter will also be the foundation for Chapter 8, where we will discuss and analyze the due process dynamics and the impact of preparers' lobbying on the Boards' decisions during the due process.

First, we provide the necessary background on the process of standard setting in the context of the IASB, especially regarding the participation of the constituent groups (preparers, users, academia, regulators). Next, we shortly introduce the current lease accounting discipline under IFRS and SFAS, the expressed criticism and its evolution up to date. Both parts are important to mind as they frame the lobbying context and preparers' reactions. Against this background, we will present the analysis of the recent project on leases with respect to the proposed standard changes (models) and the observed due process dynamics on certain identified key issues.

3.1 IASB Standard Setting Due Process

The role of the International Accounting Standard Board [IASB] as an independent, privately funded standard setting board requires the institution to follow a transparent, participatory and open process of developing standards. The accounting standards published by the IASB (commonly known as IFRS) have far-reaching consequences at an international level. As a matter of fact, the IASB drives the international convergence of accounting and reporting standards: 120 countries have required or permitted the use of IFRS, with the EU requiring the use of IFRS in the consolidated accounts of listed corporations (IASB 2011); many other countries are about to follow suit. After the Norwalk agreement in 2002, the IASB and the US Financial Accounting Standard Board [FASB] are jointly working towards a steady convergence of IFRS and US GAAP (SFAS), especially when it comes to IFRS that are subject to amendment.

The task of developing new IFRS in the public interest is therefore a balanced and delicate activity with wide-ranging consequences for the business community. The process of standard setting is commonly referred as 'due process', which is officially defined in the IASB Due Process Handbook (contained also in the preface of IFRS), thoroughly describing the consultative arrangements of the Board. As the IASB is comparably 'young', it has derived the due process based on best practice of other national standard setters (IASB 2010a, §8), aligned with the FASB Rules of Procedures (FASB 2011a). Next to the FASB, the UK Accounting Standard Board [ASB] and the Australian Accounting Standard Board [AASB], just to mention a few, run highly comparable consultation processes to develop standards.

Six Stages of the IASB Standard Setting Process

The IASB's standard setting process formally comprises six stages (see Figure 3), all with the ultimate goal of improving the usefulness of accounting standards by developing high-quality and globally accepted IFRSs (IASB 2010b). In the first stage, the 'agenda setting', the IASB evaluates the needs of users of financial statements, also taking inputs from the IASB staff and other constituents into consideration. After the project approval, in the 'project planning' phase, the IASB decides on a timeline, whether to run the project alone or jointly with other standard setters and on the appointment of working groups, committees and project teams.

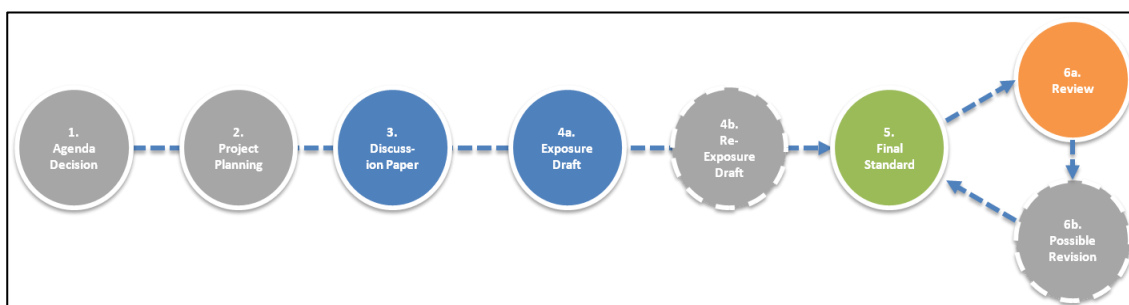


Figure 3: The Six Stages of the IASB Standard Setting Process; adapted from "How we consult?" (IASB 2010b)

In a third phase, 'development and publication of a discussion paper', the IASB publishes the discussion paper [DP] as a "first vehicle to explain the issue and solicit early comments from constituents" (IASB 2010a, §30). Preliminary views on the matter are presented and constituents are asked to submit a comment letter [CL] within a defined comment period. Next, the 'development and publication of an exposure draft' phase follows, which sets out the first formal standard on the issue, incorporating received feedback from the CLs on the DP. The exposure draft [ED] may be supplemented by additional guidance, a basis for conclusion [BC] and alternative, dissenting views of IASB members. Parallel, the IASB reviews CLs, runs public hearings and round-tables, and seeks further inputs from constituents in order to develop the final standard. During the DP and ED stage, the IASB usually meets monthly to discuss related items that are on the agenda and were prepared by 'agenda papers' by the project groups. During those meetings the IASB decides whether to confirm or re-deliberate positions, mostly by making 'tentative decisions', or to continue the discussion. The IASB may decide to publish a re-exposure draft [RED], the ED in a revised form, if after the ED publication substantial re-deliberations were made. In this case, the fourth stage is repeated.

Otherwise, if no RED follows, the 'development and publication of an IFRS' stage is initiated. As part of this and in order to ensure transparency, the IASB is required to prepare a feedback statement to constituents submitting CLs and an analysis of likely effects of the forthcoming IFRS. The later should document possible costs and benefits of applying the newly issued IFRS, the quality and usefulness of the new standard along with a statement on the comparability of financial information during the transition period. When outstanding issues are resolved and the majority of the Board has voted in favor, the final IFRS is issued. After the publication, the IASB organizes meetings with interested parties to perform post-implementation reviews and, if appropriate, to initiate a potential IFRS revision ('procedures after an IFRS is issued').

External Inputs to the IASB Due Process

All procedures followed by the IASB in developing standards strictly require transparency and accessibility, extensive consultation and responsiveness, and accountability (IASB 2010a, p.6). The consultation process is essential to the IASB's legitimacy, as the constituent participation is seen as a key component to obtain institutional legitimacy (Larson 2007, p.208). As a consequence, the IASB actively solicit constituents' views through a variety of channels and publications. Throughout the third and fourth stage, input is gathered through CLs, field tests and online surveys, i.e. to better understand industry practices. Also, the IASB is committed to providing regular project communication through summaries, e-mail alerts, public board meetings, observer notes, podcasts and regional IFRS conferences. On the other hand, the above-mentioned channels represent a legitimized way for constituents to raise their voice, and support or oppose proposed standards. While the transparent process formalizes external inputs, it also sets the stage for frequent lobbying activities. With 'lobbying' being defined as "actions which 'interested parties' take to influence the rule-making body" (Sutton 1984, p.81), this includes both the submission of CLs and participation in other IASB outreach activities. Chapter 2 already indicated reasons for standard setters' responsiveness to lobbying. Also, it was stated that the creation of due processes along with the validity of economic effect arguments opened boards to lobbying pressure (Zeff 1978; Armstrong 1977).

3.2 Lease Accounting and its Evolution

During the last decades, leases emerged as a widely used form of business transactions, both as a vehicle for sales and a source of financing. Parallel to its increasing usage, leases were on the agenda of global standard setters with high frequency. In 1949, US standard setters were the first to cover lease accounting with separate disclosure requirements.

Currently, the IASB regulates accounting for leases in the International Accounting Standard [IAS] No. 17, which was initially published in 1982. It is supplemented by applicable IASB guidance (IFRIC 4, SIC 15 and SIC 27). IAS 17 defines a lease as "an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time" (IASB 2009, §4). Commonly, a leaseholder is referred to as lessee, and a lessor is the person who lets the lease property. Under IAS 17, a lease agreement is classified as either a finance lease [FL] or operating lease [OL]. The classification is based on the principle whether the lease agreement transfers 'substantially all' risks and rewards incidental to ownership of a leased asset (FL) or not (OL) (IASB 2009, §4). The distinction has to be made based on professional judgment, supported by indicators defined in the BC. Under the 'current model', FLs are recognized both as an asset and a corresponding liability on the lessee's balance sheet [BS], with interest and depreciation accruing to the income statement [IS]. OLs are only recorded as periodic operating rental expenses in the IS and not capitalized on the BS.

In the US equivalent, the Statement of Financial Accounting Standards [SFAS] No. 13, the FASB applies the same lease accounting model with certain exceptions. Wording-wise, SFAS 13 used the term capital lease instead of FL. First, the two standards differ slightly due to the different conceptual framework they follow. In contrast to IFRS, SFAS are rule-based by conception. As a result, SFAS 13 defines the classification differently, i.e. it specifies two bright-lines to measure the transfer of substantially all risks and rewards (90% threshold test on present value of due

lease payments; 75% threshold test on lease term compared to the asset's useful life). Second, another difference in the accounting discipline arises from the scope definition. While SFAS 13 does only apply to property, plant and equipment [PPE], IAS 17 also covers inventory and intangibles (Langmead & Soroosh 2009, p.23).

Yet, in recent times voices became louder, criticizing the two-folded accounting treatment of leases (separation in OL and FL). In particular, opponents pointed at the tendency to structure lease transactions in order to avoid capitalization on lessees' BS. The off-BS nature of OL was accused to represent a form of hidden financing, which enhances the preparer's perceived financial position and performance, and consequently misleads users of financial statements by not providing a complete and easily accessible picture of the firm's lease activities (IASB 2009). This ongoing discussion among constituents about the different treatment of leasing transactions, led standard setters to debate how to improve current lease accounting. In 1996, the G4+1 Group⁴ issued a special report on this issue, proposing a new accounting model that treats all leases consistently by eliminating any classifications. More specific, the G4+1 Group came up with the suggestion to treat all leases as formerly FLs (IASB & FASB 2009).

In 1997 and 2003, the IASB amended IAS 17 twice, reacting to calls for improving the principle-based classification by further guidance. Yet, the IASB only eventually recognized the perceived inadequacy of current discipline. Complete revisions were postponed, despite serious doubts on the consistency of IAS 17 with the asset and liability definition of the IFRS framework.

In July 2006, however, the IASB and FASB [the Boards] added lease accounting to their joint agenda, as part of the IFRS/SFAS convergence project (Norwalk Agreement 2001). After the project initiation, the Boards issued a DP (IASB & FASB 2009) with their preliminary views on the new lease accounting standard in March 2009. In August 2010, the ED (IASB 2010a) was released. In July 2011, the Boards decided to re-expose the proposed standard due to several substantial re-deliberations made in the aftermath of the comment period. While the re-exposure draft [RED] was originally announced for Q3 2011, it is now expected to be published by Q1 2012. The publication of the final IFRS is expected late in 2012.⁵

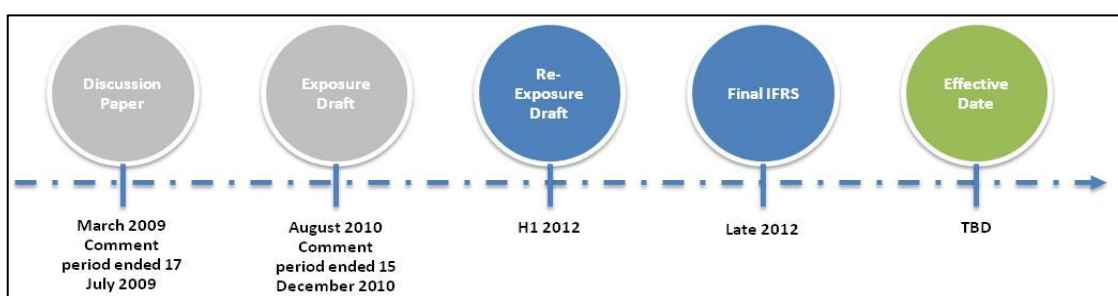


Figure 4: Due Process Timeline of Lease Project

Content-wise, the Boards' target is to remove the distinction between OL and FL for lessees, following the G4+1 Group's proposal. With the DP and ED, they introduced the so-called 'right-of-use' [RoU] model, which entails the BS recognition of all lease contracts (IASB & FASB 2009; 2010a). With the RoU Model, the Boards wanted to achieve a "complete and understandable

⁴ G4+1 members were national standard setters from Australia, New Zealand, UK, Canada and US, with the IASB as an observer.

⁵ Updates on the lease accounting project can be found under www.ifrs.org/Current+Projects/IASB+Projects/Leases/Leases.htm

picture of an entity's leasing activities" (IASB & FASB 2009, §1.2). Yet, they refrained from including lessor accounting in the project due to interdependencies with ongoing projects, i.e. revenue recognition. As a consequence, they decided to defer lessor accounting.

The project's initiation triggered a revival of the discussion on lease capitalization, already seen after the G4+1 Group proposal in 1996. Studies provided evidence that the newly proposed lease treatment will considerably impact currently reported levels of indebtedness and profit measures (see effect analysis in Chapter 4). Supposedly, also as a result thereof, the DP and ED publications generated high participation in outreach activities, especially many constituents submitted their views in CLs. Expressed opinions during the third and ongoing fourth stage of the due process were marked by widely contradicting views on the issue (see Chapter 6).

3.3 Proposed Standard Changes (Lessee Accounting Models)

As indicated, with the decision to initiate the lease project, the Boards decided to completely revise the current lessee accounting. Before starting with our analysis of proposed standard changes, i.e. the suggested lessee accounting models, we want to make specifications on our analysis scope. First, in accordance with the Boards' initial aim to revise lessee accounting, the preliminary views of the DP covered solely lessee accounting. Nonetheless, the decision to defer lessor accounting was reversed after the DP since a vast majority of CL submissions pointed out that a delayed lessor accounting model would lead to temporary inconsistencies. Hence, lessor models were added with the publication of the ED. This shift in scope mainly explains the project's delay and the need for a RED. Yet, as defined in the scope exclusions, lessor accounting will not be covered in our analysis; first, as the Boards are still finalizing the model on lessor accounting; second, as lessee accounting is the most controversial topic.

Second, next to the development of a new lease accounting model, the project aimed at converging the standards under IFRS and SFAS. As explained in the previous section, only few differences exist between both standards with regards to the scope and classification test, which has no relevance under the newly proposed model. Hence, the convergence is supposed to be only a side-issue in the current project. As a consequence, we reduce our analysis of the proposed standard changes to a comparison of the new standard proposals with IAS 17.

Third, when starting the thesis work, the RED was announced for Q3 2011. Yet, during the project – after communication with project members of the IASB lease working group – it became obvious that the RED will be delayed until H1 2012. Hence, we decided to use an alternative basis for comparison. According to our follow-up of the monthly project progress, the Board substantially finalized most decisions on lessee accounting by July 2011. No further changes were expected to occur to the RoU Model and its specifications. When finalizing the thesis project, only the transition requirements remained subject to board discussions. Since the project group published three updated staff drafts to depict re-deliberations made, we use the most current update from November 2011 (IASB 2011c) to analyze standard dynamics. Throughout the thesis, we refer to this staff draft as the expected RED.

Identification of Key Issues

In order to depict the project's development and identify the discussion's key issues [KIs], we examined audio recordings, agenda papers and observer notes of the Boards' monthly

meetings since the publication of the DP in 2009. The project was marked by controversial discussions on lessee accounting, especially in the aftermath of the DP from July 2009 to May 2010, and after the ED comment period from January 2011 to July 2011. Subject to discussion were the specifications of the RoU Model, less the proposed RoU Model itself. Certainly, the RoU Model represents the most distinctive feature of the versions of the new proposed standard (DP, ED, RED) in comparison to IAS 17. Overall, we identified twelve KIs of the due process that were subject to controversial discussions among the Boards and constituents, presented in Table 11. Those KIs will give structure to our analysis throughout the whole thesis (effect analysis, coding, lobbying positions and impact).

Table 11: Overview of Identified Key Issues			
KI No.	Key Issue (KI)	Discussion Paper	Exposure Draft
RoU	Lessee Accounting Model: Right-of-Use Model	x	x
KI 1	Standard Scope: Non-core Leases	x	
KI 2	Standard Scope: Short-term Leases	x	x
KI 3	Lease Payment Components: Purchase Options	x	x
KI 4	Lease Payment Components: Contingent Rentals	x	x
KI 5	Lease Term	x	x
KI 6	Reassessment of Components and Lease Term	x	x
KI 7	Subsequent Measurement	x	x
KI 8	Presentation: Balance Sheet	x	x
KI 9	Presentation: Income Statement		x
KI 10	Presentation: Cash Flow Statement		x
KI 11	Disclosures		x
KI 12	Transition		x

Now, turning to the factual analysis, we present the different lessee accounting models as depicted by the DP, the ED and the new expected RED. Following from this, the proposed changes by the new standard become obvious (comparison IAS 17 with DP and ED) as well as the due process dynamics in between the proposals (comparison DP with ED and ED with RED). In order to structure the analysis, we first discuss the RoU lessee accounting models and then we cover the KIs one by one, focused on the temporal progression of the proposals.

Lessee Accounting Model: The 'Right-of-Use' Model

From a theoretical standpoint, the Boards acknowledged that the right to use a leased asset meets the IFRS frameworks' definition of an asset and the obligation respectively the definition of a liability⁶ (IASB & FASB 2009, IN6). As a consequence, the Boards decided that the lessee shall recognize, for each lease agreement, an asset representing a right to use the leased item for the lease term, and a liability for its obligation to pay the rentals. Rather than distinguishing lease contracts into asset purchases (FLs) and executory contracts⁷ (OLs), the new model would consider a consistent approach applicable to all leases, thereby addressing users' criticism of limited comparability. Furthermore, by stating that leases have the same underlying economic rationale, the Boards implicitly argue that the RoU Model would improve

⁶ According to the IFRS Framework, an asset is defined "a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity", while a liability is "a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits" (IASB, §49)

⁷ Executory contracts have often been compared to OLs for their similar method of accounting treatment. An executory contract is defined as a contract which has not yet been performed (executed) by the involved parties.

the accounting quality of the current discipline by eliminating structuring opportunities (since the RoU Model focuses on the substance of transactions disregarding the form). Practically, all leases will therefore be treated more or less as FLs currently: They will be capitalized.

In the DP, the Boards tentatively decided to initially measure the RoU asset at cost, i.e. present value of the lease payments, discounted using the lessee's incremental borrowing rate. In line with the initial DP proposal of applying a consistent model, the ED maintains the proposition that lessees should apply the RoU Model on all leases. However, in applying the RoU Model, preparers can also choose, if it can be readily determined, the rate at which the lessor charges the lessee (IASB & FASB 2010a, §12). Thus, preparers can continue to discount lease payments as currently for FLs. The RED is not expected to introduce any new specifications regarding the principles behind the application of the overall RoU Model.

Standard Scope: Non-core Leases and Short-term Leases

The DP reports that the scope of the new standard should remain largely unchanged from the current IASB discipline with regards to scope exclusions of certain assets. In addition, the Boards were undecided regarding a proposal to exclude short-term leases and non-core leases from the scope of the standard, i.e. the application of the RoU Model. While not reaching a preliminary view, the Boards acknowledge that some short-term and non-core leases may not be material enough to recognize them on the BS. In that case, they may consider their exclusion from the scope of the RoU Model, after soliciting feedback and further examination.

After the DP, the ED issued in August 2010 specifies that the lease standard will be applied to all leases other than intangible assets, biological assets and leases to explore for or use natural resources (IASB & FASB 2010a, §5), in line with today's IASB discipline. Furthermore, the Boards now suggested that non-core asset leases and short-term leases shall also be included within the scope, as opposed to the undecided view beforehand. Nonetheless, the Boards reserved a special treatment to short-term leases, defined in Appendix A as leases for which the maximum possible term, including options to renew, is twelve months or less. For those leases, a simplified application of the RoU Model, i.e. recognizing undiscounted lease payments rather than present values of future lease payments, was proposed.

Yet, the RED, as to be expected from the last Staff Draft (IASB 2011c, §64), will present a significant change for short-term leases. While with the RoU Model the distinction between OL and FL disappears, so as to faithfully represent the economics of the lease contract, the Boards introduce a new separation in the RED: Short-term leases do not need to be recognized according to the RoU Model anymore. For those leases, firms can decide to apply the same method as for today's OLs.

Lease Components: Purchase Options and Contingent Rentals

The current IAS 17 defines the minimum lease payments as the payments over the lease term that the lessee is required to make, together with any amounts guaranteed by the lessee (residual value guarantees) and lease purchase options, only if their exercise price is expected to be sufficiently lower than the fair value at exercise date, but excluding contingent rentals⁸

⁸ Contingent rentals are defined as that portion of the lease payments that is not fixed in amount but is based on the future amount of a factor that changes other than with the passage of time (e.g. percentage of future sales, amount of future use, future price indices, future market rates of interest). (IASB 2009, §4)

and costs for services (IASB 2009, §4). The minimum lease payments, after discounting, are then recognized on the statement of financial position for FLs. With the preliminary views of the DP, in a major turn compared to current lease accounting, the Boards decided to include both purchase options and contingent rentals as components of the lease payments, as they meet the definition of a liability (IASB & FASB 2009, IN7).

The ED modified the DP with regards to the components of lease payments. Under the RoU Model proposed in the ED, lease payments include, apart from the fixed lease payments over the lease term, an estimate of residual value guarantees and term option penalties, together with an estimate of contingent rentals depending on an index or rate. Thus, contingent rentals based on utilization and/or lessee's performance are excluded. ED §15 excludes all purchase options from the present value of the lease payments, arguing that with the purchase of the asset the contract does not constitute a lease anymore (IASB & FASB 2010a).

In the RED, the Boards decided to again include the exercise price of purchase options as part of the minimum lease payments, but only if the lessee has a significant economic incentive to exercise the purchase option. They further decided that contingents based on an index or rate should be initially measured using the index or rate at the commencement of the contract.

Lease Term

Under IAS 17, the lease term is defined as the non-cancellable contract period, considering renewal options when their exercise is reasonably certain. The DP suggested recognizing the most likely lease term instead, including all renewal options. With this re-formulation it is expected that, ceteris paribus, lessees would be required to consider longer lease terms and consequently to recognize higher values of RoU assets and liabilities (IASB & FASB 2009, IN10).

In the ED, the Boards suggested determining the lease term as the longest possible term that is more likely than not to occur, taking into account the effect of any lease renewal options.

Yet again, the expected RED position differs from the ED propositions. The Boards tentatively decided that, when assessing the lease term, preparers should consider any options to extend or terminate the lease (renewal options), but only when there is a significant economic incentive to exercise them (as for purchase options). Thus, with the RED the Boards effectively return to a contractual lease term definition similar to IAS 17.

Reassessment: Lease Payment Components and Lease Term

With regards to the reassessment requirements defined in the different models, the Boards treated the reassessment of both lease payment components and the lease term similar through all stages. While IAS 17 does not define any requirement to reassess the lease term or lease payment components (for FLs), the Boards proposed – in the DP – that all components (IASB & FASB 2009 §§7.25 and 7.48) as well as the lease term shall be reassessed at each reporting date. With the ED publication, the Boards limited this regulation only to events indicating material changes (IASB & FASB 2009, §6.47). In the RED, they specified that the reassessment for contingent rentals shall be done at the end of each reporting date.

Subsequent Measurement: Lease Asset and Lease Liability

As for current accounting treatment of FLs, the DP defines that lessees need to amortize the

RoU asset over the lease term, while adopting an amortized cost-based approach for the obligation to pay rentals. Lessees will recognize both the decrease in liability at each cash outflow and the accrual of interest expense on the obligation to pay rental. Thus, the RoU Model eliminates the possibility of expensing lease payments on a straight-line base in the income statement as currently done for OLs. Due to the present value character of the new model, this results into a front-loaded (not straight-line) amortization pattern.

The ED maintains the same methodology of the DP, retaining the amortized cost-based approach both for the asset and for obligation to pay rentals. Yet, compared to the initial DP, the Boards specify that the RoU asset may be subject to impairments. Also, the ED specifies, for investment properties, the possibility to measure the RoU asset in accordance with the fair value model in IAS 40 (IASB & FASB 2010a, §7). The RED is not expected to change with regards to subsequent measurement of the lease assets and liabilities.

Presentation: Balance Sheet, Income Statement & Cash Flow Statement

Aligned with current lease accounting, the DP does not require to separately present lease obligations from other liabilities; on the other hand, the Boards decided that the RoU assets should be disaggregated from owned assets on the basis of the business nature of the leased asset (by asset class). Detailed presentation guidelines were postponed until the ED issuance.

The ED published in August then required separate presentation of both the lease asset and newly also of lease liabilities. With regards to the IS presentation, separation from other items is required for amortization of lease assets and interest expenses on lease liabilities. Contrary to the BS items, for the IS items lessees could chose between presenting the information in the IS or in disclosures. For CF statements, lessee shall classify all cash repayments and interest on the lease liability as part of the financing activity (IASB & FASB 2010a, §§25-27).

The RED views stem from the July 2011 meetings, in which the Boards tentatively decided to reverse the necessity of separating BS lease items. The Boards are expected to introduce the same choice as for the IS items to the separation of lease assets and liabilities on the BS.

Disclosures

In the DP, no preliminary views were presented regarding mandatory disclosures. With the ED, the Boards specified disclosure requirements. In particular, §70-86 and §§BC168-183 of the ED prescribe a substantial amount of quantitative and qualitative disclosures, substantially more than required by IAS 17. Disclosures especially aimed at identifying and explaining the amounts recognized in financial statements arising from lease contracts and how such leases may affect the amount, timing and uncertainty of future cash flows (IASB & FASB 2010a).

Compared to the ED, the expected RED requires less burdensome disclosures. As a matter of fact the Boards significantly reduced the required disclosures for lessees. While information about the principal terms of leases that have not commenced, on expenses relating to leases recognized in the reporting period and whether leases create significant rights and obligations for the lessee in future periods remained in the ED, other disclosures were excluded with the RED. E.g., disclosures on estimates and assumptions of lease amounts, on discount rates, on purchase options and on initial direct costs are also exempted. Regarding short-term leases, only qualitative information to indicate events that can lead to material changes is needed.

Table 12: Overview of Proposed Standard Changes (Lessee Accounting Models)

Standard Issues (KI bold)	KI	Recent Model of IAS 17	Proposed Model in Discussion Paper (DP)	Proposed Model in Exposure Draft (ED)	Proposed Model in Re-Exposure Draft (RED)*
Lessee Accounting Model	RoU	'Current' Model separating FL and OL: <u>Capitalization</u> of FL and <u>disclosure</u> of OL	Right-of-Use [RoU] Model: <u>Required capitalization</u> of all lease contracts; Discount R.: Lessee's incremental borrowing rate	Right-of-Use [RoU] Model: <u>Required capitalization</u> of all lease contracts; Discount rate: Lessee's borrowing <u>or</u> lessor's charging rate	Right-of-Use [RoU] Model: <u>Required capitalization</u> of all lease contracts; Discount rate: Lessee's borrowing <u>or</u> lessor's charging rate
Standard Scope - Exclusions - Non-core Leases - Short-term Leases	KI 1 KI 2	Scope exclusion / inclusions: - Exclusions: Intangibles, biological assets, and non-regenerative assets - Non-core leases: <u>Not specified</u> within scope - Short-term leases: <u>Not specified</u> within scope	Scope exclusion / inclusions: - Exclusions: Intangibles, biological assets, and non-regenerative assets - Non-core leases: <u>Undecided</u> - Short-term leases: <u>Undecided</u>	Scope exclusion / inclusions: - Exclusions: Intangibles, biological assets, and non-regenerative assets - Non-core leases: <u>Inclusion</u> - Short-term leases: <u>Inclusion</u> (<u>simplified</u> : no discounting)	Scope exclusion / inclusions: - Exclusions: Intangibles, biological assets, and non-regenerative assets; no exclusion of inventory (clarified) - Non-core leases: <u>Inclusion</u> - Short-term leases: <u>Voluntary capitalization</u>
Lease Payment Components - Purchase Options - Contingent Rentals - Residual Value Guarantees - Other	KI 3 KI 4	Minimum lease payments (only FL) <u>include</u> : - Purchase options (if <u>bargain purchase</u>) - Residual value guarantees	Minimum lease payments <u>include</u> : - Purchase options (if <u>likely to be exercised</u>) - Contingent rentals - Residual value guarantees	Minimum lease payments <u>include</u> : - Contingent rentals (if based on an <u>index or rate</u>) - Residual value guarantees - Expected payments under term option penalties	Minimum lease payments <u>include</u> : - Purchase options (if <u>significant econ. exercise incentive</u>) - Contingent rentals (if based on an <u>index or rate</u>) - Residual value guarantees - Expected payments under term option penalties
Lease Term	KI 5	Lease term (only FL): Recognition over <u>non-cancellable term</u> ; examining bargain purchases	Lease Term: Recognition over <u>most likely term</u> Inclusion of renewal options	Lease Term: Recognition over <u>most likely term</u> Inclusion of renewal options	Lease Term: Recognition over <u>most likely term</u> Inclusion of renewal options (if significant econ. incentive)
Reassessment - Lease Components - Lease Term	KI 6	Reassessment: <u>Not required</u> ; neither for lease payment components nor for lease term	Reassessment: <u>Required at each reporting date</u> for lease payment components and lease term	Reassessment: <u>Required at each reporting date</u> for lease payment components and lease term, <u>if</u> events indicate <u>significant change in carrying value</u>	Reassessment: <u>Required at each reporting date</u> for lease payment components and lease term, <u>if</u> events indicate <u>significant change in carrying value</u> ; for contingent rentals at each reporting date
Subsequent Measurement - Lease Asset - Lease Liability	KI 7	Subsequent measurement (only FL): Applying <u>amortized cost-based approach</u> on both lease asset and lease liability	Subsequent measurement: Applying <u>amortized cost-based approach</u> for both lease asset and lease liability	Subsequent measurement: Applying <u>amortized cost-based approach</u> for both; - Lease asset: <u>Assets may be impaired</u> ; exception if <u>IAS 40</u> is applied (fair value model for investment property);	Subsequent measurement: Applying amortized cost-based approach for both; - Lease asset: <u>Assets may be impaired</u> ; exception if <u>IAS 40</u> is applied (fair value model for investment property);
Presentation - Balance Sheet - Income Statement - Cash Flow Statement	KI 8 KI 9 KI 10	Presentation guidelines (only FL): - Overall: <u>No separation</u> of lease asset & lease liability, related income statement items and cash flow items	Presentation guidelines: - BS: <u>Separation</u> of lease assets - IS: No preliminary views - CF: No preliminary views	Presentation guidelines: - BS: <u>Separation</u> of lease assets & liabilities - IS: <u>Separation</u> of lease amortization & interest expenses, either in IS <u>or</u> disclosures - CF: Lease payments <u>classified under financing activities</u>	Presentation guidelines: - BS: <u>Separation</u> of lease asset & liability in BS <u>or</u> disclosures - IS: <u>Separation</u> of lease amortization & interest expenses, either in IS <u>or</u> disclosures - CF: Lease payments <u>classified under financing activities</u>
Disclosures	KI 11	Required disclosures on: - <u>Nature</u> of lease arrangements - Existence of <u>options</u> (purchase and renewal) - <u>Reconciliation</u> of opening/closing balances - <u>Restrictions</u> imposed by lease arrangements - <u>Contingent rentals</u> expensed in last period - Amount and timing of <u>future cash flows</u>	Disclosures: No preliminary views	Required disclosures on: - <u>Nature</u> of lease arrangements - Existence of <u>options</u> (purchase and renewal) - <u>Reconciliation</u> of opening/closing balances of lease assets (disaggregated by asset class) and lease liabilities - Basis for <u>contingent rentals</u> (underlying rate / index) - Amount and timing of <u>future cash flows</u> - <u>Judgments and estimates</u> (i.e., discount rates) - <u>Restrictions</u> imposed by leases (risk & maturity analysis)	Required disclosures on: - <u>Nature</u> of lease arrangements - <u>Reconciliation</u> of opening/closing balances of lease assets - <u>Short-term leases</u> (if not voluntary application of RoU) - <u>Not capitalized expenses</u> related to lease contracts - Amount and timing of <u>future cash flows</u> - <u>Risk analysis</u> of the undiscounted lease cash flows
Transition - Operating Leases - Finance Leases	KI 12	n/a	Transition: No preliminary views	Transition: - OL: Required <u>retrospective application</u> - FL: Required <u>adjustment of carrying values</u> (RoU Model)	Transition (likely reliefs under discussion): - OL: <u>Simplified retrospective application</u> (discount rate; renewal & purchase options; contingents) - FL: <u>No required adjustment of carrying values</u>

*RED: We refer to the expected RED draft on lessee accounting incl. re-deliberations as of Nov 2011 based on the recent staff draft (IASB 2011c), which is expected to remain unchanged with regards to the lessee accounting model with the exception of KI 12 (transition)

Transition

As for the disclosures, no preliminary views were presented in the DP on the transition from the current discipline to the new standard. The first rules appeared with the ED, which targeted the end of 2011 as the effective date for transition. The Boards proposed that outstanding leases should not be 'grandfathered', i.e. all outstanding leases should be accounted for with the new proposed RoU Model (retrospective application to OLs). Yet, a simplified approach for the retrospective application has been outlined, with all OLs appearing on BS and the carrying value of FLs being readjusted to the RoU Model. Only for simple FLs (without purchase and renewal options, contingent rentals, term option penalties and residual value guarantees) no adjustments were required, as changes would have been marginal.

On the way to the RED, transition has been heavily discussed in fall 2011. As outcome of the Boards re-deliberations, lessees would not be required to adjust the carrying value of most FLs, if they existed at the beginning of the earliest comparative period presented. Further, for 'old' OLs lessees can apply a simplified retrospective approach. The approach defines that a lessee should 1) recognize liabilities to make lease payments at the present value of the remaining lease payments, discounted using the own incremental borrowing rate as of the effective date, 2) recognize the relative right-of-use assets, and 3) record to retained earnings any difference between the liabilities to make lease payments and the right-of-use assets at transition. Firms are also not required to evaluate initial direct costs for contracts before the effective date.

Concluding Remarks on the Lessee Accounting Models

With the description of the transition, we finished the content-wise review of the due process on lease with specific focus on the identified KIs of lessee accounting. The different models of the stages (IAS 17, DP, ED and RED) are summarized, in their key points, in above Table 12. The original paragraphs of the different stages are listed for the identified KIs in Appendix A, to allow for specific review by the reader. Table 12 further enables us to derive the proposed changes to lessee accounting to derive anticipated effects on preparers in Chapter 4.

3.4 Due Process Dynamics

While the proposed overall RoU Model remained unchanged, the Boards changed, sometimes severely, several of the KIs. We refer to those changes in KIs in between the project stages as 'due process dynamics'. The observed dynamics in the case of lessee accounting can, on the one hand, be seen as the purpose of a due process – the Boards collect and receive input (also from constituents) over time to refine their views; on the other hand, the way and frequency of changes (sometimes back and forth) may cast doubt on the development of the process as such with its ultimate goal of high-quality standards, although one may argue that the Boards are testing the feasibility and cost/benefit appropriateness of the proposed standards. Table 13 depicts the observed due process dynamics KI by KI. As we can observe from the table, substantial dynamics could be depicted for both periods (from DP to ED, and ED to RED).

With its re-deliberations, it appears that the Boards changed, to a certain extent, single components of the RoU Model in order to soften the potential effects (amount of capitalization and standard compliance costs) of its application on preparers. Nevertheless, we also observed due process dynamics that further strengthened the model, especially from the DP to ED, like the inclusion of non-core and short-term leases in the scope of the standard, but also the heavy requirements for disclosures and transition.

Table 13: Overview of Due Process Dynamics			
Standard Issues (KI in bold)	KI No.	Changes from DP to ED	Changes from ED to RED*
Lessee Accounting Model	RoU	RoU Model: Newly introduced another <u>choice for the discount rate</u> (rate at which lessor charges)	RoU Model: <u>No change</u>
Standard Scope - Exclusions/Inclusions - Non-core Leases - Short-term Leases	KI 1 KI 2	- New clarification: <u>Exclusion of</u> intangibles, biological assets, and non-regenerative assets - Non-core leases: Decided to include <u>within scope</u> - Short-term leases: Decided to include <u>within scope</u> with <u>simplified approach</u>	- New clarification: <u>Inclusion of</u> inventory that is associated with a leased asset - Non-core leases: No change - Short-term leases: Newly excluded from scope; now <u>only voluntary capitalization</u>
Lease Payment Components - Purchase Options - Contingent Rentals - Other	KI 3 KI 4	- Purchase options: <u>Newly excluded</u> - Contingent rentals: Limited to contingent rentals based on a rate or index - Expected <u>term option penalties</u> are now included	- Purchase options: <u>Again included</u> but now only if significant economic incentive to exercise - Contingent rentals: Newly permitted to use the index or rate at <u>commencement date</u> (simplified)
Lease Term	KI 5	Lease term: No change	Lease term: Newly requires a <u>significant economic incentive</u> to exercise to include renewal options
Reassessment - Lease Components - Lease Term	KI 6	Reassessment: Newly limited to reassessments of lease asset and liability <u>only if events indicate significant change in carrying value</u>	Reassessment: Change only for contingent rentals based on a rate or index, which again need to be reassessed <u>at each reporting date</u>
Subsequent Measurement - Lease Asset - Lease Liability	KI 7	Subsequent measurement: - Lease asset: Specifies possibility of <u>impairments</u> and <u>exception</u> if IAS 40 applies (fair value option) - Lease liability: No change	Subsequent measurement: - Lease asset: No change - Lease liability: No change
Presentation - Balance Sheet - Income Statement - Cash Flow Statement	KI 8 KI 9 KI 10	- BS: Newly requires separation of <u>liabilities also</u> - IS: Newly requires <u>separation of lease amortization & interest</u> , either in IS or disclosures - CF: Newly requires classification of lease payments under <u>financing activities</u>	- BS: Newly allows choice to separate lease assets and liabilities, <u>either in BS or disclosures</u> - IS: No change - CF: No change
Disclosures	K 11	Disclosures: Newly <u>specifies required notes</u> , i.e. quantitative and qualitative information to identify / explain lease amounts and impact on future CFs	Disclosures: Newly <u>limits required disclosures</u> substantially, i.e. options, disaggregation, contingent rentals, estimates and judgments
Transition - Operating Leases - Finance Leases	K 12	Transition: Newly specifies for - OL: <u>Retrospective application</u> - FL: <u>Adjustment of carrying values</u> (RoU Model)	Transition: Limits requirements (in discussion) for - OL: <u>Simplified Retrospective application</u> - FL: <u>No adjustment</u> of carrying values

*RED: We refer to the expected RED draft on lessee accounting incl. re-deliberations as of Nov 2011 based on the recent staff draft (IASB 2011c), which is expected to remain unchanged with regards to the lessee accounting model with the exception of KI 12 (transition)

As the progression of the RoU Model is far from being linear, characterized by many “u-turns” during the different RoU versions. On the one hand, we may interpret our observations as a first indication that the leasing due process might be marked by the Boards’ struggle to achieve consensus with and among constituents, and the difficulty to develop standard against preparers’ preference (see Chapter 2.2). It seems that the Boards have modified the proposed lessee accounting standard addressing concerns expressed by respondents throughout the due process. On the other hand, we could interpret this high degree of dynamics as a first sign of constituents’ lobbying impact that shaped the Boards’ development of the proposed models, as the Boards partly addressed operational concerns of preparers by softening the RED RoU Model compared to the initially suggested DP RoU version. Hence, it is still an open question whether such changes de-facto equally improve the quality of the new lease accounting standard and reduce adverse economic effects on preparers, or whether they are predominantly unbalanced in a certain constituent’s direction.

We will refer back to the due process dynamics in Chapter 5 to develop respective hypotheses on the lobbying impact. Moreover, we will examine the issues we touched upon now here in Chapter 8, when preparers’ lobbying impact on the Boards’ is analyzed with specific reference to lobbying position from CLs and the Boards’ meeting podcasts and summaries.

4. Effects of Proposed Standard Changes

After introducing our case study, the due process on leases, we now build an effect analysis on the results from the previous chapter. Table 12 summarized the development of the lessee accounting models from IAS 17 to the DP, ED, and finally, RED. This is the starting point to derive the anticipated effects of the proposed standard changes on preparers. The effects are expected to mainly impact preparers' lobbying rationale, since the effects are the underlying source of motivation driving firms to consider active involvement in due processes. In the analysis, we focus on the effects from a preparer's perspective only. During both the DP and ED comment period, preparers need to decide whether to submit CLs to the Boards and which lobbying position they should take towards the proposal. To make this decision, firms will evaluate the anticipated effects, namely the changes of the current IAS 17 ('status quo') compared to the respective proposal at each stage (DP and ED) separately.

We will introduce the topic by shortly discussing capital markets efficiency to retrieve current lease accounting information. Next, we will present the primary effects and resulting economic consequences of the proposed changes, as well as the tertiary reactions of preparers. Last, we draw conclusions on the anticipated effects in the context of corporate lobbying.

4.1 Capital Markets' Efficiency to Process Lease Information

The reason why preparers pay attention to effects resulting from standard changes was introduced in Chapter 2. In a world of costless contracting and monitoring, users could unravel accounting numbers without information-processing costs. Hence, irrespective of the applied accounting models, investors could see through the façade, and the value of a firm would therefore be invariant to changes in accounting standards (Holthausen & Leftwich 1983). However, if contracting and monitoring costs are introduced to value a company, limiting market efficiency, standard changes may affect a firm's value in either direction. Hence, proposed changes to lessee accounting might have adverse economic consequences on preparers, provided that markets, under the current IAS 17 regime, are inefficient in incorporating lease information (primarily OL disclosures) in their evaluations.

Empirical research was concerned with this question since the sharply increasing usage of off-BS leases in the 1980s. Studies examined whether users of financial statements, such as equity or debt analysts, are misled by off-BS accounting for OLs as information is only provided in disclosures. Wilkins and Zimmer (1983) found that only a portion of financial analysts could read through lease accounting disclosures and efficiently treat OLs as a debt equivalent. In line with this finding, Breton and Taffler (1995) concluded that stockbrokers are not able to deal appropriately with creative accounting in published accounts. They found in an experimental study that analysts made less than 3% of the possible corrections for window dressing, including OLs. Also, Goodacre (2003b) recognized that users are likely to be distorted by whether the lease information is presented on balance or merely disclosed. Next, surveying bankers, Durocher and Fortin (2009) found that less than one-third of bankers made adjustments to financial statements for off-BS OLs in credit-granting decisions. Further, managers themselves tend to believe that markets are inefficient in judging upon firms' accounting choices, including lease accounting (Goodacre 2003b).

Thus, evidence suggests that users might not process lease accounting information efficiently. Consequently, this indicates that preparers are likely to be adversely affected by a change in lease accounting standard that brings OLs back on-balance, and hence, back in users' focus. Being aware of this and hence perceiving markets as inefficient, preparers are more likely to expect adverse effects, inducing wealth transfers, from proposed lease standard changes. This in turn is likely to impact preparers' evaluation of the changes and lobbying activities.

4.2 Primary Effects

The analysis of the primary effects is focused on the preparer perspective of a lessee. Speaking about lessees, we define lessees as preparers that mostly engage in lease transactions in the role of a lessee (lease holder). When analyzing the effects, we differentiate between three levels of analysis: 1) primary effects, covered here; 2) secondary economic consequences that indirectly result from the proposed changes; and 3) tertiary reactions of involved parties.

Generally speaking, lessees are most concerned about the proposed changes to the overall lessee accounting model in relation to today's accounting for OLs, which triggers most of the anticipated effects. The KIs, introduced in Table 11, contribute to the magnitude of the RoU Model effects, but are hardly directly comparable to IAS 17. We first analyze the primary effects following the change to the RoU Model, before we relate the KIs to the discussion.

The Capitalization Effect of RoU Model

Overall, the major change suggested by the Boards with the DP and ED publication was, as explained in the previous chapter, the capitalization of all OLs that were held off-BS under the current discipline. Since this overall RoU Model did not undergo any significant changes during the due process stages from DP to ED, we can analyze the primary effects for both stages jointly compared to the current IAS 17. Of particular interest is how the financial metrics of lessees are expected to change. In order to understand the financial statement effects, the capitalization mechanism needs to be understood and is subsequently shortly presented.

Operating Lease Accounting		
BS, Jan 1		IS
Assets	Equity	Leasing fee -100
	Liabilities	EBITDA ...
BS, Dec 31		
Assets	Equity	
	Liabilities	
Cash -100		
Finance Lease Accounting		
BS, Jan 1		IS
Assets	Equity	EBITDA ...
Machine 379*		Depreciation** -75.8
	Liabilities	EBIT
	Lease liability 379	Interest expense*** -37.9
		EBT
BS, Dec 31		
Assets	Equity	
Machine -75.8		
	Liabilities	
Cash -100	Lease liability -	
*Present value of 100 over 5 years		**379/5 years of lease term
		***10% on liability

Figure 5: Current Lessee Accounting Models

The two main alternatives of lessee accounting models are presented above in Figure 5. The application of the RoU Model leads to the recognition of all leases as under the current FL

regime. This implies that all off-BS OLs become capitalized both as an asset and corresponding liability, measuring the new RoU asset as the present value of lease payments, using either the lessee's incremental borrowing rate or the rate the lessor charges as the discount rate. Leased assets are amortized on a linear basis over the lease term, while the lease liability is reduced by the delta between the lease payment and the interest expense accrued (annuity principle).

As stated in the previous chapter, the current IAS17 OLs regime requires only operating rental expenses to be recognized in the IS, thus fully impacting the EBITDA. Under the new lessee accounting model, amortization and interest expenses substitute OLs' rental expenses, since the newly recognized asset is amortized throughout the lease term; and because 'fictive' interest expenses will be charged to the lease liability. The split of rental expenses will thus increase the EBITDA, as part of the original OL cost (i.e. interest expense) will not be classified as operating anymore. Further, the delta between amortization and interest compared to the lease cash payment will be balanced out in equity. As a further result of the RoU Model, lease payments are categorized as CFs from financial activities, in line with the IS treatment.

If we analyze the RoU Model application from a 'single lease' perspective, the capitalization of OLs leads to a higher cost burden in early years of transition due to present value accounting (reporting a decreasing pattern of lease expenses over the lease term). This effect is commonly known as the front-loading effect [FLE], because of the increase in expenses recorded in the IS for the first years of the lease contract. This effect, due to timing differences of the present value computation, is stronger when the lease term is on average longer. Yet, this effect is only likely to occur under certain circumstances, namely if the firm accounts for a single lease or it has an "unbalanced" lease portfolio over the years. Indeed, the FLE effect of capitalizing simultaneously several leases with diversified maturities and amounts (i.e. a balanced portfolio) should be negligible, as the obtained different present values average out.

However, one should mind that the FLE might occur even to firms with a perfectly balanced lease portfolio policy. The front loading of expenses can be induced by the firm's growth rate, by an increase in use of leases and, importantly, by a transition to the new standard without retrospective application. By not applying the new model retrospectively, only new leases will be subject to the RoU Model and the FLE will take effect until 'old' contracts are terminated. Based on this finding, we will discuss the primary financial statement effects differentiating between two scenarios: financial metrics with and without FLE. Which scenario is applicable depends on the firm's specific characteristics⁹. In Table 14 we thus depict the RoU capitalization effect to firms' financial metrics, separately showing the effects on the BS, IS, CFS and key financial ratios.

The financial metrics below show the adverse financial statement effects, resulting from the anticipated capitalization of OLs using the previously described mechanism. Under Scenario 1, we acknowledge an overall positive impact on EBITDA and EBIT, due to the split of rental expenses in amortization and interest, while the bottom line (before and after tax) remains unaltered. In the BS, the RoU Model leads to an increase of assets and liabilities, while equity (retained earnings) remains unchanged. Regarding the key financial ratios, we have mixed effects on the profitability ratios due to the top-down shift in the IS. All credit ratios (interest

⁹ Regarding the transition requirement (KI12), it is clear that the application of the RoU Model will be retrospective; thereby we can exclude this fact as a potential FLE cause for the ED.

coverage, gearing and liquidity ratios) are negatively impacted because of the increase in both interest expenses and liabilities.

Table 14: Overview Primary Financial Statement Effects (Financial Metrics)					
Financial Statement Item / Key Financial Measure	Scenario 1: Balanced Portfolio (No Front-Loading Effect)		Scenario 2: Unbalanced Portfolio (Front-Loading Effect)		
<u>Income Statement</u>					
EBITDA	↑	Increase	↑		Increase (all periods)
EBIT (Operating Income)	↑	Increase	↑	↗	Volatile increase
EBT	→	No change	↓	↑	Volatility
EAT (NI)	→	No change	↓	↑	Volatility
<u>Balance Sheet</u>					
Total Assets	↑	Increase	↑		Increase (all periods)
Total Debt (s-t and l-t)	↑	Increase	↑		Increase (all periods)
Equity (Retained Earnings)	→	No change	↓	↑	Volatility
<u>Cash Flow Statement</u>					
CF from Operating Activities	↑	Increase	↑		Increase (all periods)
CF from Financing Activities	↓	Decrease	↓		Decrease (all periods)
Total CF	→	No change	→		Unchanged (all periods)
<u>Key Financial Measures</u>					
OPM (EBIT/Sales)	↑	Increase	↗	↑	Volatile increase
ROE (NI/Equity)	→	No change	→	→	Uncertain* volatility
ROA (EBIT/Assets)	→	Uncertain*	→	→	Uncertain* volatility
ROA (NI/Assets)	↓	Decrease	↓	↓	Volatile decrease
Asset Turnover (Sales/Assets)	↓	Decrease	↓		Decrease (all periods)
Interest Coverage Ratio (EBIT/Int.)	↘	Likely** decrease	↓	↘	Likely**, volatile decrease
Gearing Ratios I & II (D/E and ND/E)	↑	Increase	↑	↑	Increase (all periods)
Liquidity (s-t) & Solvency (l-t) Ratios	↓	Decrease	↓	↓	Decrease (all periods)

* Uncertain as the direction depends on the base values before capitalization

** Likely decrease as the direction depends on the ICR range before capitalization (if ICR>1 decrease; if ICR<1 increase)

Under Scenario 2 (FLE present), we observe major differences compared to the base-case of Scenario 1. It is evident that the RoU Model will induce major income volatility over the years. All IS and BS effects, neutral under Scenario 1, will be subject to volatility due to the decreasing cost pattern (FLE). During the transition, equity will be negatively affected, EBIT will be less positive than Scenario 1, EBT and NI will be negatively affected in early periods. Consistently, the key financial ratios will also be volatile over the years. As already argued above, the magnitude of the volatility observed will be strictly dependent on the company specific lease portfolio, the growth rates and the financing strategy of the firm (i.e. lease usage).

Research Results on Capitalization Impact

Accounting research was concerned with the effects of lease capitalization since the 1990s, especially following the previously mentioned G4+1 Group's paper. Overall, delivered insights on and confirmation for the financial statement effects produced by the OL capitalization as presented in Table 14 (Bennett & Bradbury 2003; Duke et al. 2009). The most representative global study to date is a report by PWC (PwC 2010), which tested on a worldwide sample of

3000 companies the quantitative impact of the RoU Model. Results showed that preparers expect that the reported interest bearing debt will increase, on average, by 58%, while 24% of the companies will experience an increase in their debt balances over 25%. The SEC Report (2002) presents evidence that the majority of firms used OLs rather than FL through lease structuring to meet various accounting, tax, and other goals. If all OLs of listed US firms were to be recognized on BS, the total amount might approach USD 1.2tn. Duke et al. (2009) showed that, through the usage of OLs, quoted US firms avoided reporting, on average USD 582mn lease liabilities, equivalent to 11.13% of reported liabilities. For UK equities, unrecorded OL represent 39% of long-term debt (Beattie et al. 1998).

Empirical findings also show that IS measures will be heavily impacted. According to the PWC report (PWC 2010), firms' EBITDA will increase by an average of 18%. For US firms an average decrease of retained earnings of USD 132mn, equal to 7% of retained earnings, was found (Duke et al. 2009). Considering a single 10-year office lease (Scenario 2 of Table 14), Leone (2010) calculates that, under the new ED rules, the RoU Model could cause lessees' expenses to climb by 21% in total, and 63% over the first five years due to the FLE.

The capitalization of OLs under the RoU Model also differs by industry. The highest impact is predicted to occur for retail and trade, professional services, transport and warehousing, accommodation, and telecoms (PWC 2010). Generally speaking, industries using OLs massively as a financing source will be most negatively affected by the new RoU Model. Goodacre (2003b), reports that OLs of UK retailers exceed on-BS long term debt by three times. Globally, for retail companies, the reported debt balances are expected to increase by an average of 213% and the leverage by an average of 64% (PWC 2010, p.1). This is also confirmed by the German study (Fülbier et al. 2008), showing that retail and fashion industries are most heavily affected. Analyzing the RoU capitalization effect on the hospitality sector, evidence shows that the ICR will decline by 71.4%, the D/E ratio will increase by 170% and NI will decrease by 13% (Singh 2011). Another study showed that the IS effect is expected to be most severe for airline, rail, banking, real estate and trucking companies, due to the FLE triggered by, on average, longer lease terms (Leone 2010, p.54).

From a geographical perspective, Japan, the Netherlands, UK, Switzerland and Germany are expected to be most affected by the OL capitalization (PWC 2010). Overall, we conclude that the change in lessee accounting is expected to have adverse primary effects on financial statements, triggering BS effects (capitalization), IS effects (top-down shift and volatility) and negative impacts on key financial measures (return, turnover and credit assessment ratios).

Identified Key Issues

Linking the KIs to the discussion, one has to mind that the KIs are hardly directly comparable in their effects to IAS 17, since most of the KIs only applied in one or another way to FLs but not OLs. Moreover, as FLs only amount to an estimated share in volume of 3.5% of total leases (Reason 2005), resulting changes compared to FLs are not of particular concern.

Most information required to estimate the effects of the different KIs (data on options and contingent rentals) is not publically available. Thus, studies presented above focused on the RoU Model itself, rather than considering the KIs of the RoU Model. Yet, the KIs were the core of discussion among constituents, as the KIs' changes (see Table 12) affect the magnitude of

the BS effect (the amount to be capitalized), the IS effect (top-down shift and potentially induced volatility) and the standard compliance costs (i.e., book-keeping). Table 15 below summarizes the relation of the KIs to those three primary effects.

Table 15: Overview of Primary Effects Related to Identified Key Issues						
KI No.	Key Issue (KI)	DP	ED	BS Effect (Capitalization)	IS Effect (Volatility)	Standard Compliance Costs
KI 1	Standard Scope: Non-core Leases	x		yes		yes
KI 2	Standard Scope: Short-term Leases	x	x	yes		yes
KI 3	Lease Payment Components: Purchase Options	x	x	yes		yes
KI 4	Lease Payment Components: Contingent Rentals	x	x	yes	yes	yes
KI 5	Lease Term	x	x	yes	yes	yes
KI 6	Reassessment of Components and Lease Term	x	x	(yes)	yes	yes
KI 7	Subsequent Measurement	x	x	(yes)	yes	yes
KI 8	Presentation: Balance Sheet	x	x			yes
KI 9	Presentation: Income Statement		x		(yes)	yes
KI 10	Presentation: Cash Flow Statement		x			yes
KI 11	Disclosures		x			yes
KI 12	Transition		x	yes	yes	yes

As shown above, KIs 1-5 impact the magnitude of the BS effect (capitalization amount to be capitalized under the RoU Model) and indirectly induce effects on the IS. KI4 is of major concern as the underlying base is volatile by definition. KI6 potentially results in both BS and IS effects. The presentation way (KI9) potentially might put the IS volatility under spotlight.

All KIs produce substantial compliance costs for preparers, primarily KI4, 6, and 11-12. This is mainly due to the fact that, as of today, preparers solely gather and disclose information on the core lease payments, their timing along with some general information in the nature of the transaction and options at a high level. Yet, in order to comply with the proposed DP/ED, preparers need to significantly change their operating processes, i.e. adapting management control and IT systems. Accounting firms point out that to capture required information, firms will consume considerable resources: Lessees need to gather data on lease payments' components and on the lease term (considering options), to impair and reassess estimates (Singh 2011), and to comply with the presentation and disclosure requirements.

KI12 is of overall interest as the way the transition will be defined impacts all three effects. The decision on KI12 is a trade-off between retrospective transition (high one-off compliance costs, rapid capitalization and a more or less prevented front-loading effect) vs. simplified transition (lower costs, step-wise capitalization but more intense front-loading effect).

Last, some firms might have concerns about proprietary costs involved, as the information that becomes public through presentation and disclosure releases business secrets. Assuming that for some firms leases are core to their business, proprietary costs may be significant.

4.3 Secondary Consequences

A starting point to the analysis of secondary effects is the perceived efficiency of capital markets to understand disclosures under IAS 17 and potential accounting changes. Assuming efficiency, markets are able to adjust financial statements even for the specific KIs, not only for

the general model of capitalization. Yet, as discussed in Chapter 4.1, markets are unlikely to be efficient. Assuming semi-efficiency, markets might be efficient to the degree they receive public information on OLs (current disclosures), but they might not expect and/or understand the magnitude of the proposed model and its specific design. However, studies on market efficiency partly suggested that even public information on OLs is not adjusted for efficiently by debt and equity markets. Under this assumption, the induced BS and IS effects might be new information to the market and, potentially, even not understandable. In this case, adverse economic consequences are likely to result. For this analysis, we take the standpoint that markets are both partly semi-efficient and inefficient.

Debt Capital Markets

The capitalization of OLs will impact credit ratios, as presented, and might negatively change the perception of debt capacity. Two consequences are thus expected: First, the danger of covenant breaches leading to a technical default; and second, limitations to future financing, as the primary effects could lead to a limited or more expensive access to debt markets. Such assumptions are confirmed by several empirical studies (Duke et al. 2009; Singh 2011; Grossman & Grossman 2010). Empirical simulations also showed that the Altman Z-score, a proxy widely used in bankruptcy prediction, is likely to decrease by 15% for Spanish companies (Angels et al. 2011). Obviously, this effect among others could lead to reassessments of credit ratings. Companies might be perceived as more risky and thus might suffer under less accessible and costly financing (Fülbier et al. 2008).

Equity Capital Markets

If the information present in recent OL disclosures is not understood or well interpreted by the capital market, current share prices are likely to be mispriced. With the standard change increasing available and comparable information provided on OLs, capital markets are likely to adjust share prices accordingly, potentially downwards. Another scenario, leading to the same effect, is that equity markets might not be able to digest those changes in accounting numbers and will even perceive financial statement effects as ordinary changes. The perceived increase in risk impacting debt markets (Fülbier et al. 2008) is also likely to take its effect on equity markets, resulting in higher risk premiums. Yet, some firms might also expect positive effects for their individual company. As the standard might improve consistency and transparency (Grossman & Grossman 2010), markets might be able to judge better on peer performance. Thus, firms with a currently not transparent disclosure policy and/or high off-BS OLs is most likely to be more seriously hit by value adjustments; and vice versa.

Compensation Schemes

Empirical research on the impact of primary effects on management compensation presents divergent and inconclusive results. Changes in profitability may affect management behavior for contractual reasons, i.e. compensation (bonus and performance) plans regularly connected to earnings and profitability ratios (Fülbier et al. 2008). However, consequences on executive compensation are dependent on how firm-specific schemes are defined, i.e. to which non-GAAP (EBITDA, EBIT or EBT) measures variable elements are linked. Due to the top-down shift in the IS and differently impacted earnings measures, studies show controversial results. Some studies suppose the effects to be low (Fülbier et al. 2008), others expect them to be substantial, especially due to EBITDA based compensation schemes (Singh 2011). However, firms are expected to re-define their compensation plans in light of this accounting change, so

to neutralize the capitalization effect on the variable payments, thus taking away incentives of opportunistic behavior.

All in all, with regards to variable payments, we would not expect management compensation to be seriously impacted by the RoU Model due to the diverse, partly opposite effects. Even though managers might assume negative effects on their compensation, i.e. due to stock options held, the direction of their self-interest is likely to be aligned with the firm's interest. Taking this into consideration and the inconclusive direction of IS effects, we do not expect compensation to play a crucial role explaining preparers behavior.

4.4 Tertiary Reactions

Secondary consequences from primary effects might trigger reactions by lessees and lessors. Preparers may decide to use less lease contracts in order to avoid the financial statement effects (primary effects) and the corresponding adverse economic consequences. Hence, they might adjust corporate capital structure policies; shifting away from formerly off-BS OLs.

Lease vs. Buy Decisions

Grossman and Grossman (2010) claim that the complexity of the new accounting requirements may cause lease contracts to be avoided, except their benefits. The new lessee accounting model is likely to trigger lessees to reconsider their lease vs. buy decisions, thus negatively impacting the leasing industry. Singh (2011) supposes that firms will face a critical decision of whether they will reduce or continue leasing assets. Acquiring assets will slow or limit future growth, especially for quickly growing firms, also inducing income volatility.

Business Model Consequences for Lessors

As a result to the potential shift in financing strategy, industrials that use leases as a major distribution channel, such as transportation, engineering firms are expected to experience adverse economic consequences (or their financial service subsidiaries) on this part of their business operations. While leasing firms might lose the very foundation of their core business, industrials are expected not to suffer to the same extent, as all their peers will be equally affected and, as producers, they are not replaceable. Yet, they might suffer under decreasing sales volumes or the less attractive leasing operations, since lessors are likely to face risks and uncertainty from more flexible lease clauses and shorter client relationships (Goodacre 2003).

Contrary, for real estate and leasing firms, solely specialized on leases (mostly with OLs as main product) as their business model, their whole business model is put under threat (Grossman & Grossman 2010). This depends on the degree the new standard will provoke lessees to withstand from future leases, due to the primary and secondary effects mentioned previously. Authors speculate that such firms will invent new products to circumvent the capitalization rules by structuring opportunities (Leone 2010), i.e. multiple flexible short-term leases.

Financial Services

No study to date addresses the hybrid-position of financial services in respect to the RoU Model. Financials are typically significant lessees in their daily operations (premises and IT systems) and lessors through their leasing subsidiaries and lease financing products. However, they are, foremost, also users of financial statements as capital market participants. Thereby, it

is difficult to predict, a priori, the effect the RoU Model may trigger on them. Despite being a user, financial services will experience a variety of the previously discussed effects.

4.5 Conclusion

This chapter examined the anticipated effects resulting from the proposed standard changes on preparers. Literature suggests that markets might be semi-efficient or inefficient in retrieving lease accounting information. Also, managers are likely to perceive markets as such. Taking the viewpoint of a lessee, we showed which primary effects, secondary economic consequences and tertiary reactions are to be expected following the implementation of the proposed RoU Model. Our key findings are presented in Table 16.

Table 16: Key Findings of Effect Analysis		
<u>Primary Effects</u>		
a) Adverse Financial Statement Effects	Balance Sheet Effect	- Capitalization induces leverage effect
	Income Statement Effect	- Reclassification of expenses induces top-down shift - Potential front-loading effect induces income volatility
	Credit Ratios Effect	- BS and IS effect worsens credit ratios
b) Non-financial Statement Effects	Standard Compliance Costs	- RoU Model and its design induce high compliance costs
	Standard Proprietary Costs	- Released information may induce standard proprietary costs
c) Other Particularities	Industry Effect	- More intense effects on certain industries, i.e. retail & transportation
	Geographical Effect	- More intense effects on certain countries, i.e. Europe and Japan
<u>Secondary Economic Consequences</u>		
a) Debt Markets	Current Debt	- Danger of technical default on existing covenants (D/E and ICR)
	Future Financing	- Limited access and/or higher financing costs
b) Equity Markets	Equity Valuation	- Negatively perceived IS/BS effects may result in lower valuation
	Peer Comparison	- Better comparability may impact valuation among peers
c) Compensation	Profit-based Plans	- Inconclusive consequence (different ratios; stock options)
<u>Tertiary Reactions</u>		
a) Financing Strategy	Lease vs. Buy Decision	- Lessees may shift to buy assets financed by long-term debt
b) Business Model	Leasing Companies	- Threat to business model, offering new lease structuring
	Industrial Lessors	- Threat to distribution channel, yet no dependency

All in all, we expect lessees to anticipate severe primary effects from changes to their financial statements and due to standard compliance and proprietary costs. Further, it is suggested that effects may vary significantly across industries and geographies, mainly due to the different levels of OL usage. Assuming inefficient markets, we expect lessees to be concerned about adverse secondary consequences on their debt and equity financing. Specifically, they will be concerned about covenant breaches, financing access and flexibility as well as interest costs. But also decreasing equity values might be anticipated. Last, it is assumed that involved leasing parties anticipate potential strategic reactions resulting from the standard being finalized as suggested, i.e. on lessees' financing strategy and lessors' business models.

Those results from the effect analysis are crucial when developing our case-specific hypotheses and when analyzing the rationale and impact of lobbying activities. The analysis in this chapter gives a first indication that preparers might be driven in their lobbying activities by the severe perceived effects of the RoU Model. The KIs, and their ability to smooth the magnitude of the primary effects of the model, might hence be of particular concern to lobbyists when expressing their lobbying position.

5. Empirical Research

In this interlude, the subsequent empirical research is introduced. We first specify our research contribution; then, we develop hypotheses that will guide both our empirical analysis of lobbying in the case of lease accounting and the related discussions. Last, we will shortly present a methodological overview of our empirical analysis.

5.1 Research Contribution and Scope Limitations

The authors of this thesis intend to contribute to previous research by conducting a first-mover study on preparers' lobbying rationale and impact on the IASB standard setting in the specific case of lease accounting. As concluded in the literature review, no previous literature, to date of the publication, covers corporate lobbying on lease accounting standard setting, neither for former due processes, nor for the currently on-going IASB / FASB project. Perceiving the case on leases as valuable, we want to close this existing gap in literature with our research paper.

We personally perceive the case of lease accounting to be a well-suited research object for its obvious importance and controversy. Constituent participation in the due process was extraordinary high in both stages. During the comment periods, individual constituents submitted 302 CLs on the DP and 786 on the ED, respectively. This even exceeded the participation of the highly debated revenue recognition project. Also, following the Boards' decisions, we observed significant dynamics throughout the project. This impression was supported by the decision to re-expose the ED. Further, a survey by Beattie et al. (2006) came to the conclusion that substantial differences in surveyed preferences might lead to intensive lobbying activities by constituents. Considering those facts, we reckoned the case to be appropriate for empirical research about lobbying on accounting standard setting.

Besides, the case of lease accounting is of specific research interest as it is an ongoing project. Hence, the authors hope to contribute to an understanding, not only of corporate lobbying in general, but also of this specific case in this crucial point in time, where lease accounting is on the agenda of most accounting bodies and interest groups, i.e. having the RED comment period in Q2 2012 on mind. Constituent groups involved might be particularly interested to understand preparers' lobbying rationale and impact on the current process up to date.

Advancements of Existing Literature

Next to filling the gap in literature on leases and to contributing to the current discussion on the lease standard, we want to advance existing research as follows:

1) Holistic analysis: Our explicit research goal is to conduct a holistic analysis along the causal chain of corporate lobbying, visualized in Chapter 5.3. As opposed to existing research, we do not limit our empirical study to either the lobbying rationale (mostly even limited to lobbying position or decision) or the lobbying impact. Instead, we follow Georgiou's advice (2005) and extend the analysis scope from the lobbying rationale of observed lobbying activities towards the complementary direction, the actual impact on the standard setting outcome. Taking this two-fold perspective enables us to examine natural dependencies between both parts.

2) Industry perspective: Despite many papers assuming industry specific influences, studies to date do not explicitly include industry specific determinants. Following the demand articulated by Watts and Zimmerman (1990), our paper includes inter- and intra-industry considerations

throughout the empirical analysis and discussion. In particular, we aim at improving previous research by including industry-associations in our analysis. For us, this advancement is of particular importance, considering the findings that industry associations actively encourage members to lobby (Schalow 1995) and that firms tend to take collective action through those industry associations (Georgiou 2010). In the light of the concepts of multiple voices and collective lobbying, we devote special attention to this circumstance.

3) No oversimplification of the lobbying position: As obvious from our literature review, papers mostly simplified content analyses of CLs by building samples of supporting/non-supporting or submitting/non-submitting firms. Thus, dependent variables used in regressions were limited to the respective binary event of group membership, not considering the position taken in further sub-clusters or detail. Yet, in line with Ang and Gallery (2000), we do not agree with taking the overall position straightforward as representative for the lobbying position. Considering that the Boards explicitly solicit specific feedback on KIs of proposed models and that research describes the due process outcome as a compromise solution, we will treat the observed lobbying positions more carefully and in more detail. In particular, we code submitted CLs on the disaggregated level of the identified KIs (see Chapter 6).

Scope Limitations

1) Lessee Accounting: The focus is limited to the analysis of lessee accounting, excluding lessor accounting, which was added to the agenda only with the ED. It was lessee accounting that triggered the IAS17 revisions and the dominated discussions at the initial stages. While lessor accounting is still in discussion, the Boards' position on lessee accounting is reliably stable.

2) Preparer: The analysis focuses on the holistic analysis of preparers' lobbying rationale and impact. Other constituents that also submitted CLs to the Boards were excluded for two reasons. First, corporate lobbying is the focal point of this thesis. Second, the general resource constraints of master thesis projects did not allow for the analysis of the remaining CLs.

5.2 Hypotheses Development

Now, based on the key findings from existing literature, we develop research hypotheses in order to answer our research question "what drives preparers to actively lobby on accounting standard setting and which impact do they achieve on the standard outcome". First, we present the hypotheses related to the lobbying rationale, followed by the lobbying impact.

5.2.1 Lobbying Rationale

Our hypotheses regarding the lobbying rationale are largely connected to previous studies on preparers' lobbying rationale, in order to test the validity of those findings in the case of lease accounting. Yet, we adjust our set of hypotheses and the related proxies to comply with our attempt to advance existing literature as described in Chapter 5.1.

Hypotheses on Lobbying Position

Connecting Tables 7 and 16, which present approved proxies and the effect analysis results, we derive the following hypotheses on preparers lobbying position. LP₁₋₃ capture the idea of adverse economic effects and LP₄₋₈ add a behavioral analysis dimension, with LP₆₋₇ examining inter-/intra-industry interdependencies. LP₈ is the only specified proposition for lessors.

LP₁: Adverse Financial Statement Effects

Lessees that experience higher adverse financial statement effects are likely to take more negative lobbying positions towards a) the RoU Model and b) the Key Issues.

With LP₁, we suppose that the magnitude of expected adverse BS and IS effects is likely to influence lessees' lobbying positions. Thus, lessees will tend to oppose the RoU Model and KIs as they fear that negative effects from the capitalization, the FLE and induced income volatility (Table 15), along with corresponding economic consequences on debt and equity, leading to higher bankruptcy, financing and contracting costs (Beattie 1998; Goodacre 2003b; Duke 2009; Leone 2010; PwC 2010). LP₁ is consistent with prior studies of Francis (1987), Sutton (1988), Deakin (1989), Ang and Gallery (2000), and Elbannan and McKinley (2006).

LP₂: Standard Compliance and Proprietary Costs

Lessees that experience higher standard compliance and proprietary costs are likely to take more negative lobbying positions towards a) the RoU Model and b) the Key Issues.

With LP₂, we propose that the magnitude of expected standard compliance and proprietary costs is likely to influence lessees' lobbying positions. As the proposed standard leads to significant book-keeping and information gathering efforts (Singh 2011), lessees will tend to oppose the RoU Model and certain KIs. Further, lessees are expected to take more negative positions, if business secrets are supposed to be disclosed, as proprietary costs arise. LP₂ refers to the work of Sutton (1988) on compliance costs, Katselas et al. (2011) on proprietary costs, and Elbannan and McKinley (2006) with regards to the information-processing requirements.

LP₃: Debt Covenant Constraints

Lessees that experience tighter debt covenant constraints are likely to take more negative lobbying positions towards a) the RoU Model and b) the Key Issues.

With LP₃, we hypothesize that the tightness of current debt covenant constraints is likely to influence lessees' lobbying positions. As the expected BS and IS effects triggered by the new standard severely worsen lessees' credit ratios (Fülbier et al. 2008; Duke 2009; Durocher & Fortin 2009; Grossman & Grossman 2010; Singh 2011; Angels et al. 2011), i.e. D/E and ICR, which underlie debt contracts, lessees will tend to oppose the RoU Model and the KIs. If the capitalization triggers technical covenant defaults, bankruptcy and re-negotiation costs might accrue to lessees. Next to defaults, future financing costs and accessibility may worsen. LP₃ is consistent with prior empirics (Dhaliwal 1982; Griffin 1982; Kelly 1982; Deakin 1989; Ndubizu et al. 1993; Pacecca 1995; Wilson & Ahmed 2002; Georgiou & Roberts 2004).

LP₄: Position towards Lessee Accounting Model

Lessees with more negative lobbying positions on a) the RoU Model are likely to take more negative lobbying positions towards b) the Key Issues.

With LP₄, we infer that the degree of the negative position towards the overall RoU Model is also likely to influence lessees' lobbying positions towards the KIs. Since the KIs mainly decide about crucial aspects of the model, deciding about the magnitude of adverse effects, lessees with negative overall positions towards the RoU Model will tend to oppose the KIs as well. LP₄ was specifically introduced for the context of our two-level analysis of the lobbying position (advancement 3). It is further aligned with the approved perception that lessees exploit the KIs to smooth the magnitude of the model's effects, if they oppose the model itself.

LP₅: Past Lobbying Behavior

Lessees that lobbied in the past are just as likely to take a negative position towards a) the RoU Model and b) the Key Issues as lessees without past track record.

With LP₅, we presume that the frequency of past lobbying on IASB due processes is likely to influence lessees' lobbying positions. Based on evidence that past lobbying influences the lobbying decision (Georgiou & Roberts 2004), we hypothesize that those lessees tend to take more neutral positions, as they will not constantly lobby driven by opportunistic behavior. Yet, they might also constantly defend their self interest. Thus, we state LP₅ as a null hypothesis.

LP₆: Alignment with Industry Associations

Lessees that are member of also lobbying industry associations are likely to take similar lobbying positions on a) the RoU Model and b) the Key Issue as the association.

With LP₆, we infer that, when associated industry organizations also lobby on the same due process, the associations' standpoint is likely to influence lessees' lobbying positions. LP₆ has not been tested in this form in previous literature, but aims at capturing the social dimension of mutual influence among lobbying industry associations and their members. In this network situation, we expect that lessees will tend to align lobbying positions. Evidence that industry associations exerted pressure on their members was provided (Schalow 1995).

LP₇: Industry Membership

Lessees from highly affected industries are likely to take a more negative lobbying position towards a) the RoU Model and b) the Key Issues.

With LP₇, we suppose that membership in a severely affected industry is likely to influence lessees' lobbying positions. The effect analysis showed that certain sectors are more exposed to the standard changes (Goodacre 2003a; Fülbiér et al. 2008; PwC 2010), and thus, will tend to oppose the proposed RoU Model and KIs. LP₇ follows W&Z's suggestion (1990) to examine inter-industry differences in lobbying activities (Koh 2011).

LP₈: Business Model Threat

Lessors which business model is under threat are likely to take a negative lobbying position towards a) the RoU Model and b) the Key Issues.

Last, with LP₈, we suppose that the magnitude to which lessors business model is under threat is likely to influence lessors' lobbying positions. The business model threat is a tertiary effect introduced beforehand (Grossman & Grossman 2010). Lessors subject to this threat will tend to oppose the RoU Model, to prevent the situation from occurring, and the KIs, to allow for potential product structuring opportunities that circumvent the new capitalization rules.

Not included as hypotheses are management compensation and political visibility, due to the previously discusses concerns (Chapter 2 and 4). Also cross-listings are not considered, for both the lobbying position and decision, since the project on leases is a joint convergence project of the Boards, and hence, the reasoning based on standardization (Chapter 2) does not apply.

Hypotheses on Lobbying Decision

Referring to Table 10, which showed proxies associated with preparers' lobbying decisions, we derive the following hypotheses. For the lobbying decision, the hypotheses are specified for preparers in general, as the proxies are not coupled to financial statement effects, which are limited to lessees. All below hypotheses refer to different theoretical concepts.

LD₁: Health and Power Attributes

Large, growing and profitable preparers are more likely to decide to lobby on the due process on leases.

With LD₁, we suppose that healthy and powerful preparers (large, growing and profitable) are more likely to decide to lobby. Firms fulfilling those characteristics presumably perceive their influence on the Boards' to be higher, thus increasing marginal benefits. Also, it implies that these firms are likely to experience higher relative benefits and scale effects of lobbying, and they have access to higher accounting expertise and related resources (Francis 1987). Next, it captures the ideas that smaller firms might free-ride on larger peers (Lindahl 1987) and experience adverse informational effects (Chung 1999). LD₁ is in line with research (Ndubizu et al. 1993; Schalow 1995; Ang & Gallery 2000; Georgiou & Roberts 2004; Koh 2011).

LD₂: Underlying Lobbying Position

Preparers with more negative lobbying positions are more likely to decide to lobby on the due process on leases.

With LD₂, we presume that preparers with more negative lobbying positions are more likely to decide to lobby. LD₂ is based on the idea that the lobbying position is underlying the lobbying decision. Preparers will tend to decide to lobby, if the expected relative net benefit of their lobbying position compared to the proposal is high (prevented economic damage), which is usually the case for preparers that oppose the changes (Schalow 1995). Further, we include industry associations' lobbying positions, for the same reason, in this hypothesis.

LD₃: Past Lobbying Behavior

Preparers with past track records of lobbying the IASB are more likely to decide to lobby on the lease due process.

With LD₃, we infer that preparers that frequently lobbied on IASB due processes in the past are more likely to decide to lobby. Preparers will tend to decide to lobby, if they experienced past lobbying success, have specifically dedicated lobbying resources, and accept the legitimacy and importance of the IASB due process (Georgiou & Roberts 2004; Elbannan & McKinley 2006).

LD₄: Peer Pressure

Preparers with higher peer pressure are more likely to decide to lobby on the due process on leases.

With LD₄, we hypothesize that preparers that are subject to high peer pressure are more likely to decide to lobby. LD₄ is based on the idea that psychological peer pressure drives preparers to decide to lobby (Koh 2011), which might especially be true for highly concentrated sectors (Elbannan & McKinley 2006). This stands partly in contradiction to the free-riding phenomena, but we assume it to be especially valid for peers of relatively same size. We expand Koh's hypothesis by adding two dimensions of geographical and industry association peer pressure. The latter is supposed to reflect the concept of multiple voices (Lindahl 1987).

LD₅: Corporate Governance

Preparers with better corporate governance systems are more likely to decide to lobby on the due process on leases.

Last, with LD₅, we assume that preparers with better corporate governance systems are more likely to decide to lobby. LD₅ particularly reflects that preparers with more independent boards are more likely to tend to decide to lobby. Independent boards supposedly enforce proper representation of the firm's interests in public matters, i.e. accounting standard setting, in order to maximize firm value while aligning corporate actions with shareholder interests (Koh 2011). Also, we assume that it prevents opportunistic management lobbying decisions.

5.2.2 Lobbying Impact

To develop hypotheses on the lobbying impact of preparers, we relate back to Table 12 that showed our key findings from previous research. LI1 regards the maintenance of legitimacy of the Boards while interacting with the different interest groups, while LI2 refers to the response of the Boards as adaptation to the strongest external pressures seeking to achieve consensus. LI3 relates to the development of preparers' lobbying pressure from the DP to the ED.

LI₁: No Domination of Standard Outcome

Preparers are not likely to dominate the overall outcome of the due process on leases.

With LI₁, we suppose that preparers are not likely to dominate the due process outcome. As the Boards must both defend and gain legitimacy among constituents, the outcome of the due process will be the result of a 'balanced bargaining process' to reach a compromise solution that enables the Boards to maintain their integrity towards all interest groups. Thus, preparers are particularly not expected to influence the overall RoU Model and technically-dominated KIs to a significant degree. LI₁ is consistent with models of social innovation (Hussein 1981) and decision making (Cheshire & Feroz 1988), as well as institutional theory (Kenny & Larson 1993).

LI₂: Marginal Impact on Key Issues

Preparers are likely to significantly impact the outcome of the due process on leases with respect to certain, non-technical Key Issues to which they paid particular attention.

With LI₂, we hypothesize that preparers are likely to significantly impact the outcome of the due process with respect to KIs of particular importance to them. LI₂ suggests Boards' changes will be directed to "accommodate the strongest wishes of its constituency" (Kenny & Larson 1993, p.539) so as to achieve consensus with preparers, the most influential interest group, Preparers will strategically consider their influence when taking a lobbying position. Consistent with Kwok and Sharp (2005), we expect preparers to impact the RED in this respect.

LI₃: Step-wise Lobbying Impact

Preparers are likely to impact the due process outcome in a marginal, step-by-step approach, i.e. by shifting attention across Key Issues from DP to ED.

Last, with LI₃, we suggest that preparers are likely to achieve impact by shifting attention at different stages step-by-step. Lobbyists are likely to re-focus on other KIs whenever they feel they have achieved (partial) success on crucial KIs, since the outcome resembles a strategic consensus among constituents through a series of negotiations, compromises and considerations of both technical and political issues" (Kwok & Sharp 2005).

5.3 Structure Empirical Analysis

In order to examine above hypotheses, we structured our empirical research according to the analysis scheme summarized below (Figure 6). Up to this point, we covered the upper half of the scheme (E1 to E4). In the next three chapters, Elements E5 to E7 follow.

Our longitudinal study is marked by a hybrid approach of quantitative and qualitative research. Both content analysis and quantitative techniques are applied. By applying this hybrid approach we feel comfortable to grasp the very notion of preparers' lobbying rationale and lobbying impact. The previous chapters have been setting the ground not only to develop the

hypotheses in the previous section but, most importantly, to derive appropriate proxies for the quantitative parts and to prepare the qualitative discussions of our empirical observations.

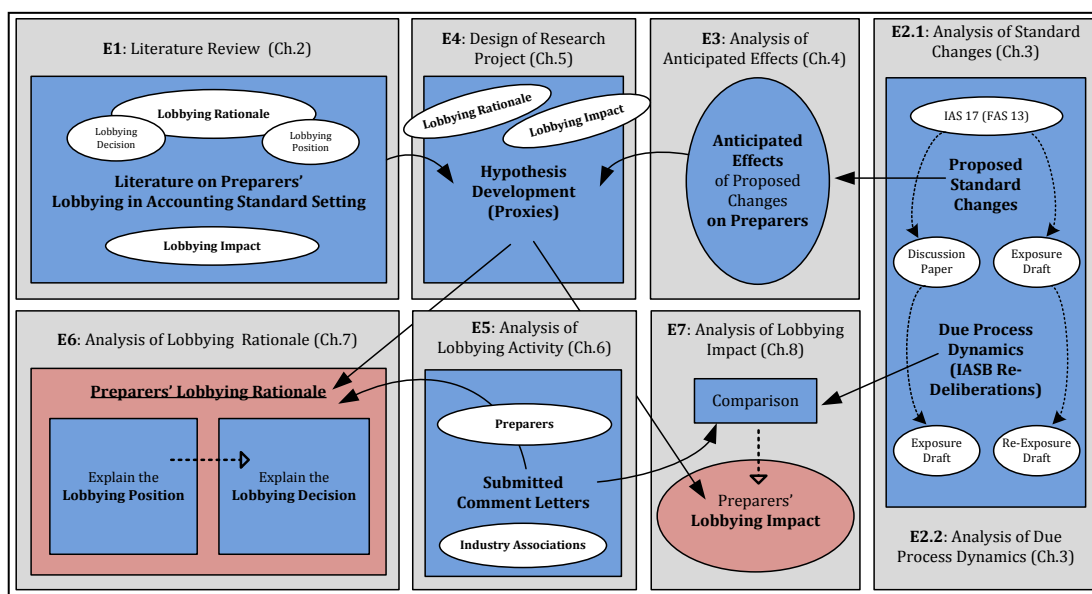


Figure 6: Thesis Analysis Scheme (Causal Chain of Preparers' Lobbying on Accounting Standard Setting)

Structure of Subsequent Empirical Research

Chapter 6 will be dedicated to Element E5. First, we present our content analysis of preparers' lobbying activity, namely the submitted CLs to the Boards during the DP and ED periods of the due process on leases. Here, we coded preparers' lobbying positions on the RoU Model and the identified KIs for submissions to both comment periods. As a result, we received the public lobbying position of submitting preparers and industry associations, which serves us as the dependent variable for the lobbying rationale analysis and the independent variable for the lobbying impact analysis. The coding is crucial to comply with all three intended advancements to previous research. First, it allows us to connect the lobbying rationale and impact; second, industry associations were included in the content analysis; and third, when coding, CLs were disaggregated for each KI and used argument types to avoid oversimplification of positions.

Next, Chapter 7 aims at explaining the underlying rationale of the observed lobbying activity, Element E6 in above Figure 6. We aim at explaining what drives preparers to take certain lobbying positions and to decide to actively lobby for the established positions. In order to appropriately handle the two interlinked, yet distinct questions, we treat them individually, but link the lobbying decision with the underlying position. This chapter's analysis part will be mainly quantitatively driven by using statistical tools. Using the coded lobbying position on the RoU Model and the KIs as the dependent variables, we explain the latter through financial and social proxies chosen on the basis of the underlying hypotheses.

Last, Chapter 8 evaluates the impact, the success or non-success, of the observed lobbying activities by preparers and industry associations, namely Element E7. Here, we refer back to empirical material from the due process on Boards' decisions, which was partly introduced in Chapter 3. In order to avoid too readily references to political lobbying arguments (Cheshire & Feroz 1989), a qualitative analysis is crucial in determining preparers' lobbying impact. Yet, it is accompanied by suitable statistical methods to relate the coding results, this time treated as independent variable, to the Boards' re-deliberations (treated as dependent variable).

6. Lobbying Activity

This Chapter presents our analysis of the empirically observed lobbying activities of preparers on the due process of lease accounting. As the linking element between the lobbying rationale and lobbying impact it is of crucial importance. The results of this chapter serve as both, the dependent variable for Chapter 7 and one of the independent variables in Chapter 8.

6.1 Method

In this section, the methodology used to derive the coded lobbying position of preparers and industry associations is explained.

6.1.1 Content Analysis

To investigate lobbying rationale and impact of preparers, we need to empirically retrieve the lobbying position of preparers, in order to understand whether they are in favor or against the proposed RoU Model and the single KIs (see Table 11), and for which reasons.

The decision of which type of document to analyze is essential to any study in this research area (Unerman 2000). Aligned with most empirical studies on lobbying activity, the underlying content-wise position of preparers' lobbying is analyzed based on submitted CLs to the lease project. As part of a transparent standard-setting due process, CLs represent the 'public path' by which constituent groups can raise their concerns and express their support or opposition to the standard or single KIs. Yet, one should bear in mind that, as argued by MacArthur (1987), formal submissions are only one part of the process by which companies are able to exert influence on the Boards. Although CLs are a relatively cheap methods of lobbying and are probably not necessarily the most effective means (Lindahl 1987, p.70), CLs still constitute the formal and public way through which firms can express their opinion to the Boards. Schalow (1995) provides evidence that costs of submitting CLs can still prevent firms from lobbying despite the relatively low costs. Also, research concluded that submitted CLs can be seen as well representative of other hidden activities (Georgiou 2004).

Considering the research findings, we follow previous studies and analyze CLs to depict the lobbying positions of preparers and their presented arguments. As the submitted CLs to the DP and ED already represent a comprehensive amount of data for the purpose of our empirical study, also considering the high due process participation, we did not consult other documents issued by preparers, in line with previous research but also caused by limited resources.

Yen et al. (2007, p.61) defined content analysis as a "research method that uses a set of procedures to make valid inferences from text". Content analysis is particularly useful for organizing text into manageable units, allowing research to be conducted. Using this method to derive the lobbying position enables us to use a flexible and unobtrusive method of coding based on the identified KIs. In order to perform a "good" content analysis, documents should be authentic, credible and representative of the company position (Scott 1990), all characteristics we assume to hold true for the CLs submitted to the Boards.

Commonly two types of content analysis are applied by researchers: A quantitative, 'form-oriented' analysis, focused on word counts, and qualitative, 'meaning-oriented' analysis, focused on the argumentation. Applying the first approach implies counting sentences, words, or parts of pages as proxy of the (relative) importance of a particular issue: the volume

signifies the importance of the issue. Unerman (2000) notes that this method is inherently flawed, since it ignores the impact of differences in the use of grammar, intonation, figures and formatting, all resulting in the same message but in a different number of sentences.

The second approach disregards quantity to focus more on the content: A meaning-oriented analysis has the advantage of providing richer insights into the analyzed text. This method is more appropriate if a study, as our analysis, searches for a deeper understanding of CL submissions (Kwok & Sharp 2006). The added subjectivity of this approach due to the interpretation of the content does not necessarily invalidate the analysis. Yet, researchers must choose criteria of reliability that they consider appropriate to their particular study (Unerman 2000). Considering the above discussion, we proceeded to code CLs submitted by preparers according to the 'meaning-oriented' approach, focusing on preparers' positions towards the RoU Model and the related KIs.

6.1.2 Coding System

To ensure an appropriate content analysis, it is crucial to develop a reliable coding system; the coding scheme should also be objective and transparent, so as to enable replications by follow-up studies (Bryman & Bell 2011). Thus, to obtain a holistic picture of preparers' positions on the RoU Model and the KIs, we developed a multiple coding system, including firms' position towards the RoU, each KI and the arguments used.

As already stated in Chapter 5, we extend existing literature by avoiding an oversimplification of the lobbying position, as suggested by Ang and Gallery (2000). Francis (1987) also proved our approach as valid: He recognized that while coding CLs, one should consider that lobbyists might support parts of a proposal and oppose other parts, making it thus difficult to determine an overall position. Hence, for each CL we first register the general position towards the RoU Model; second, we code the position (whether firms opposed or supported) for each single KI of the RoU Model identified already in Table 11; third, for both levels we also record the type of argument provided by companies in their single answers.

To be consistent with the DP and ED versions and their change over time, the coding of CLs stems from the questions posed to constituents present both in the DP and in the ED. As a matter of fact, to facilitate the discussion on the KIs of the model suggested, the Boards solicit input from constituents during the comment periods. Although there is no pre-determined format for CL submission, the majority of respondents provides their position according to the scheme of questions posed by the Boards. Hence, we follow a similar structure in our analysis in order to ensure a reliable and replicable coding of the content of CLs.

In Chapter 5 we defined that the scope of our analysis is limited to preparers. Since we aim at advancing previous research by including industry associations, we consistently code all CLs submitted by both preparers and industry organizations.

Coding of RoU Model and related Taxonomy of Arguments

The first level of analysis regards the overall position of preparers towards the RoU Model. For each CL submitted by preparers and industry associations, we register whether they overall support (+2), partially support (+1), partially oppose (-1) or oppose (-2) the RoU Model for lessee accounting, or whether they are neutral or do not provide any answer (0). From the examination of the DP and ED CLs, the overall position towards the RoU Model is usually

presented in the cover letter or in the introduction, and in the answer to Question 4 [Q4]. A representation of the full coding system, related to the identified KIs and the Boards' questions is present in Appendix B.

Yet, simply coding preparers' positions and not the arguments behind the position provides only limited insight for the analysis. Besides the numerical coding, we therefore developed a taxonomy of arguments to classify the arguments used in favor or against the lessee model. Our argument taxonomy scheme (in Appendix B) is based on the CL summary prepared by the Boards, the system developed by Yen et al. (2007) and a pre-test on a random set of CLs. We sorted arguments according to following categories: 1) Expected Economic Consequences (effects at a company/industry level); 2) Feasibility of Application of RoU Model (internal operational effects); and 3) Accounting Quality. For each category, we further specified single arguments commonly used.

Coding of Key Issue and Related Arguments Classification

The coding of single KIs provides us with an in-depth insight of the positions of lobbyists on the articulation of the RoU Model and on the magnitude preparers oppose or support the changes in leasing standard. Table 17 illustrates briefly the coding systems employed in the examination of the single issues for CLs related to the DP period and to the ED period.

Table 17: CL Coding System					
Key Issue		DP*	Points	ED*	Points
Lessee Accounting Model (RoU Model)		Support +2; partial support +1; partial opposition -1; opposition -2	-	Support +2; partial support +1; partial opposition -1; opposition -2	-
Scope of the standard - Non-core leases	KI 1	+1 if support for non-core asset exclusion; -1 if against	1		
Scope of the standard - Short term leases	KI 2	+1 if support short-term leases exclusion; -1 if against	1	+1 if support short-term leases recognition; -1 if against	1
Components of lease payments - Purchase options	KI 3	+1 if support recognition purchase options; -1 if against	1	+1 if support purchase options exclusion	1
Components of lease payments - Contingent Rentals	KI 4	+1 if support recognition contingent rentals; -1 if against	1	+1 if support recognition contingent rentals; -1 if against	1
Lease term and renewal options	KI 5	+1 if support recognition most likely term with renewal options; -1 if against	1	+1 if support recognition most likely term with renewal options; -1 if against	1
Reassessment of lease term and lease components	KI 6	+1 if support reassessment at each reporting date; -1 if against	1	+1 if support reassessment every time significant changes; -1 if against	1
Subsequent measurement	KI 7	+1 if support amortized-cost based method; -1 if against	1	+1 if support amortized-cost based method; -1 if against	1
Presentation - Balance sheet	KI 8	+1 if support separation of RoU items in the BS; -1 if against	1	+1 if support separation of items in the BS; -1 if against	1
Presentation - Income Statement	KI 9	+1 if support separation of RoU items in the BS; -1 if against		+1 if support separation of items in the IS; -1 if against	1
Presentation - Cash Flow Statement	KI 10			+1 if support separation of items in the CFS; -1 if against	1
Disclosures	KI 11			+1 if support disclosure details; -1 if against	1
Transition requirements	KI 12			+1 if support retrospective approach; -1 if against	1

*Whenever the answer to the single KI was missing or the position was neutral, we coded the KI as 0.

Tables 17 follows primarily the same structure identified in Chapter 3 (Table 11) when

describing the lessee accounting model. We code each of the twelve KIs for the DP and ED with regards to preparers' alignment with the Boards' position (derived from the same document as the questions). Each issue is worth 1 point. For each KI, we separated the answers in support (+1) or opposition (-1) for the Boards' position; alternatively, neutral positions or no answers (0). In substance, the positive sign is interpreted as an aligned answer with the Boards positions, while a negative answer goes into the direction of lobbying against the stated Boards' position, potentially in order to soften the impact of the new RoU Model together with its KIs. Regarding this last point, some exceptions exist for the coding of the DP (KI1 and KI2) and of the ED (KI3)¹⁰. In these three instances, in fact, preparers will positively answer to the Boards' question, if they wish to reduce the impact of the new standard. During our analysis, we controlled for this change in direction so as to be consistent with the described effects.

Following the coding system implemented, each CL can thus reach a certain maximum score [KI Score], determined by the sum of all the single KI answers, ranging from +8 to -8 for DP CLs and from +11 to -11 for ED CLs. Further, we also coded the type of argument used for each KI. However, in order to avoid an overwhelming amount of data, we limited the coding of the arguments to the three main categories of the argument taxonomy introduced above.

In summary, our content analysis provides us with 1a) RoU Score and b) used arguments; 2a) Score on each KI, b) overall KI Score, and c) used arguments. 1a, 2a and 2b are the basis to test our hypotheses developed in Chapter 5. After describing the methodology chosen to proceed with our analysis, we now turn to the description of the sample chosen.

6.2 Sample and Sub-clusters

In this section, we analyze the sample and define its sub-clusters, which we apply throughout the empirical analysis performed in the next chapters. All the submitted CLs to the DP and ED constitute the basis of our sample and were retrieved from the IASB and FASB website under the lease project webpage¹¹. The total number of CLs received for the DP was equal to 302 and 786 for the ED, respectively. Consistent with the focus of the thesis, from this sample we extracted preparers (including industry associations); accounting firms and attesters of financial statements, due to their peculiar position and consistent with other studies, were not considered. We thus reach an initial sample of 135 and 459 firms. All preparers and industry associations' 594 CLs were coded according to the described methodology (Chapter 6.1).

The initial sample of all lobbying constituents was first clustered according to the constituent group, then by geography, so as to obtain the initial sample of preparers; the latter are further clustered according to their sector and whether they are lessee/lessors or financial services. Table 19 provides an overview of the different segmentations of the sample.

Table 18: Sample Breakdown		
	DP	ED
All constituents	302	786
Preparers	135	459
- Private firms (missing values)	(38)	(204)
- Outliers	(3)	(11)
Sample of preparers	94	244
Industry associations	57	74
Total sample size	151	318

¹⁰ The three issues are non-core and short term leases exclusion from the scope of the standard (DP), and exclusion of purchase options from lease payments (ED).

¹¹ The IASB Lease project is available under <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Leases.htm>

We follow the geographical split the IASB Staff uses in their CL summary: Europe, North-America, South-America, Asia-Pacific and Africa/Middle East. In addition, international organizations are separated. The industry classification stems from the industry division provided by the IASB Staff Summary of CLs, deeming the Fama & French industry classification used by some empirics (Koh 2011) too specific for the size of our final sample. Preparers are classified according to their main sector (Table 19) based first on the Datastream (Thomson Reuters 2011) classification, and further re-grouping the different categories by looking at the business description reported in the CL and/or in the main corporate websites. The industry segmentation is performed also for industry organizations.

Table 19: Classification Scheme of Lobbyists			
<u>Respondent Type</u>	<u>Geography</u>	<u>Sector</u>	<u>Sector</u>
Preparer	Europe	Retail	Telecommunication
Industry Organization	North America	Real Estate	Engineering
Professional Organization	Asia-Pacific	Transportation	Financial Services
Standard Setter	Africa/Middle East	Power & Utilities	Construction
User / Other	South America	Information Technology	Oil & Gas
Governmental Agency	International Organization	Professional service	Insurance
Accounting Firm		Consumer Products	Leasing
Academic		Tourism and Hospitality	Cross-industry
		Healthcare	
<u>Contractual model</u>			
Lessee / Lessor / Financial Services			

Besides the industry classification, we provide another specification for preparers, which is needed to explain firms' lobbying position: We divide lessees from lessors. The classification is driven by the tertiary effects discussed in Chapter 4: Lessees and lessors will have different financial statement effects (primary effects), distinctive economic consequences and reactions. We separate the sample in lessee and lessor looking at the company description of the business, their sector and their description of income streams, triangulating such classification by checking the amount of financial lease receivables in the annual report. For companies operating both as lessee and lessor, their primary business model was considered. Furthermore, consistent with our considerations for financial services and with the FASB industry designation (Yen et al. 2007), we separate financial services from other preparers. Financial services represent a hybrid category; analyzing CLs from this cluster, it becomes obvious that they are all, lessees, lessors and users of financial statements.¹²

Once the preparers were selected, we retrieved from Datastream 5.1 (Thomson Reuters 2011) the required data necessary to test the hypotheses developed in Chapter 5. This step left us with 97 firms for the DP and 255 preparers for the ED, after excluding unlisted companies and public companies with missing data. After the exclusion of few outliers, the preparer sample of is composed by 94 firms submitting CLs to the DP, and 244 firms to the ED, respectively.

¹² In our content analysis, we encounter several times quotes such as "We are a multi-state diversified financial holding company [...]. We utilize lease contracts both as revenue-generating business strategy (equipment leasing) and for operational (retail branches and ATM leases) purposes. In addition, we also perform extensive analysis of financial statements when assessing the credit quality of our customers." (ED CL, Huntington Bancshares Inc.) and "We lease out over 250,000 non-real estate assets to our customers under approximately 85,000 finance leases and 6,000 operating leases. We structure complex transactions on behalf of customers, including over 450 leveraged lease transactions. We also lease in real estate assets in connection with our business activities, including approximately 6,000 stores under operating leases. In addition, as a lender and investor, we evaluate our customer's leasing transactions included in their financial statements." (ED CL, Wells Fargo).

6.3 Descriptive Statistics

In this section, we illustrate the descriptive statistics on the sample. Both the composition of the different clusters and the coding results of their lobbying position are presented. We will focus both on preparers (Sample 1), divided in lessees (Sample 1a), lessors (Sample 1b) and financial services (Sample 1c), and on industry association (Sample 2).

6.3.1 Lessees' Lobbying Activity

Table 20 portrays an overview of the lessee sample, which builds our core sample for the analysis of Chapter 7 and is composed of 48 / 106 preparers submitting CLs to the DP / ED.

Table 20: Industry and Geographical Distribution (Sample 1a)									
Sector	DP		ED		Geography	DP		ED	
	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>		<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>
Retail	6	13%	35	33%	Europe	20	42%	59	56%
Power & Utilities	7	15%	17	16%	North America	22	46%	33	31%
Telecommunication	9	19%	11	10%	Asia-Pacific	6	13%	13	12%
Oil & Gas	8	17%	12	11%	Africa/Middle East	0	0%	1	1%
Consumer Products	2	4%	7	7%	South America	0	0%	0	0%
Construction	4	8%	3	3%	Total	48	100%	106	100%
Tourism and Hospitality	3	6%	4	4%					
Healthcare	2	4%	9	8%					
Engineering	3	6%	3	3%					
Transportation	2	4%	2	2%					
Information Technology	1	2%	2	2%					
Professional service	1	2%	1	1%					
Total	48	100%	106	100%					

Examining the geographical and industry distribution conveys the idea that the sample is not equally distributed across regions and sectors. From Table 20, we notice that the vast majority of respondents is from Europe or North America. Previous studies on constituent participation have indeed confirmed that Western companies are the most frequent to exercise pressure to the IASB (Larson, 2007). At a high level, we can interpret such distribution in three ways: First, European and U.S. firms might experience the most adverse economic consequences (Chapter 4) and thus, strongly opposing to the new standard, they are more likely to lobby than others [LD₂]; second, U.S. and European firms are also the firms with the longest past lobbying record, making them a frequent lobbyist [LD₃]; and third, geography and industry peer pressures may have an impact on firms' participation [LD₄].

A small number of Asian and Australian firms are also present, primarily shipping companies based in ASEAN. South-Africa accounts for one firm submitting a CL to the Boards, while Latin America is not represented at all in the sample. On the other hand, the industry segmentation shows that the sample is well diversified. Most represented are firms from retail, telecom, power & utilities, oil & gas and consumer products, which might be explained by the fact that these industries rely heavily on leasing, as discussed in Section 4.2.

Coding Results RoU Model (Sample 1)

Next, we portray the average score resulting from the CL coding of Sample 1, lessees, in Table 21. Three different scores, relevant for the empirical analysis, are shown: The lobbying position towards the RoU Model (RoU_SCORE), the sum of the RoU KI (KI_SCORE) and the number of questions answered on the examined KIs (KI_NO_ANSWERS), which is max. 8 (DP) and 11 (ED).

Table 21: Coding Results (Sample 1a)								
Overall Lobbying Position								
	DP Lessees n=48				ED Lessees n=106			
	Mean	Std. Dev.	Min.	Max.	Mean	Std. Dev.	Min.	Max.
RoU_SCORE	-0.94	1.16	-2	2	-0.67	1.25	-2	1
KI_SCORE	-2.31	2.92	-8	4	-4.28	2.95	-11	5
KI_NO_ANS	7.15	2.68	1	8	6.98	3.31	0	11
Coding Results Key Issues								
KI#	DP Lessees n=48			ED Lessees n=106				
	n.	Mean	Top argument	n.	Mean	Top argument		
KI1	35	-0.31	Accounting quality					
KI2	42	0.24	Accounting quality	73	-0.75	Accounting quality		
KI3	34	-0.71	Accounting quality	36	0.33	Accounting quality		
KI4	39	-0.79	Accounting quality	97	-0.90	Accounting quality		
KI5	43	-0.72	Accounting quality	102	-0.98	Accounting quality		
KI6	40	-0.55	Accounting quality	91	-0.85	Feasibility of application		
KI7	44	0.09	Accounting quality	84	-0.38	Accounting quality		
KI8	38	-0.21	Accounting quality	47	-0.36	Accounting quality		
KI9				52	-0.54	Accounting quality		
KI10				50	-0.56	Accounting quality		
KI11				64	-0.72	Feasibility of application		
KI12				72	-0.28	Feasibility of application		

Observing the results on the RoU_SCORE we notice that both in the DP and in the ED respondents take on average a negative position towards the RoU Model; with responses in the DP being more negative, although some lessees fully support the model (+2), while for the ED no lessee is completely in favor of the proposed lessee accounting model. The KI_SCORE, indicating the sum of the score for each KI, is also negative at both stages, implying that preparers are on average not in favor of the KI proposals, which are the underlying components of the RoU Model. As opposed to the RoU position, the KI_SCORE is substantially more negative for the ED (-4.28) than for the DP (-2.31). In both cases, we find lessees that are against all KIs of the RoU Model both in the DP and in the ED CLs, but none is fully in support of all KIs in either of the documents. The KI_NO_ANSWERS, representing the number of questions answered by each preparer, delivers also interesting results: firms submitting their views to the DP answer on average relatively more questions than preparers focusing on the ED. This might be explained by the timing of lobbying: as the DP is representative only of the Boards' preliminary views, it may very well be that respondents try to answer all questions influencing the Boards in all KIs, while after the publishing of the ED preparers may want to focus only on the KIs that are most problematic for the specific company or industry.

Next, the second part of Table 21 shows the mean score for each KI along with the most frequent argument used to support the own position. On average, all KIs are negative, with the exception of KI2 (DP), KI7 (DP) and KI3 (ED). The positive sign of the KI2 (short-term leases) is explained by the fact that firms lobbied for excluding short-term leases from the new leasing standard, invoking materiality issues. KI3 (ED) is positive as agreed upon the proposal to

exclude purchase options from the lease payments. Regarding all the other KIs, we notice that the means for the ED are more negative than their DP peers, indicating that companies lobbied more intensely against the specific KIs. The relatively most answered KIs represent contingent rentals (KI4) lease term (KI5) and reassessment (KI6), all elements considered to be crucial for the magnitude of the negative impact on firms' financial statement and for compliance costs.

Regarding the most frequently used arguments, argumentations based on accounting quality (type 3) dominate arguments based on the feasibility of application of the RoU Model (type 2) and expected economic consequences arguments (type 1). One may even speculate whether firms present accounting-related arguments in order to persuade the Boards on their positions, whereas their real intent is, effectively, to reduce the expected adverse economic consequences of the new lessee accounting as reasoned by positive accounting research (W&Z 1979). While for the DP all CLs leverage type 3 arguments, preparers include type 2 on the ED for KI6, KI11 and KI12 (frequency of reassessment, disclosures and transition). For these three issues, preparers have indeed raised their concern on the feasibility of the passage from the current standard to the new one, mostly due to compliance and proprietary costs already introduced in previous chapters. Type 1 arguments constitute only 3.49% of DP arguments and 7.94% of ED arguments, with KI3 for the DP and KI7 for the ED having the highest usage (representative of compliance costs and primary effects for KI3; and of the FLE for KI7).

Referring to industries, in the DP retail, oil & gas and telecommunication are the industries most opposed both to the RoU Model and the KIs. In the ED we observe a shift in the most opposed industries, now tourism & hospitality, power & utilities and transportation.

6.3.2 Other Preparers' Lobbying Activity

Geographical and Industry Distribution (Samples 1b & 1c)

Table 22: Geographical Distribution (Samples 1b & 1c)								
Geography	DP Lessors = 32		DP Financial Services = 14		ED Lessors = 84		ED Financial Services = 54	
	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>
Europe	14	44%	8	57%	14	17%	15	28%
North America	14	44%	3	21%	63	75%	34	63%
Asia-Pacific	4	13%	3	21%	7	8%	5	9%
International Organization	0	0%	0	0%	0	0%	0	0%
Africa/Middle East	0	0%	0	0%	0	0%	0	0%
South America	0	0%	0	0%	0	0%	0	0%
Total	32	100%	14	0%	84	100%	54	100%

Presenting the results for other preparers, i.e. lessors and financial services, we find that also these clusters are concentrated on Europe and North America, predominated by North American respondents for the ED due to the strong presence of the US real estate firms. While the participation of Asian-Pacific companies is just marginal, no firm is representative of Latin America and Africa/Middle East.

In terms of industry diversification (Table 23), the financial services sample is obviously only constituted by banks and insurances. The lessor sample, on the other hand, is more diversified; yet, real estate contributes for the biggest group (50%). Other industries well represented, due

to their underlying business model, are transportation (mainly shipping, aviation, rail and logistics), engineering, information technology, leasing firms and construction firms.

Table 23: Industry Distribution (Samples 1a & 1b)								
Industry	DP Lessors = 32		DP Financial Services = 14		ED Lessors = 84		ED Financial Services = 54	
	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>	<u>n.</u>	<u>%</u>
Construction	2	6%	0	0%	5	6%	0	0%
Consumer Products	0	0%	0	0%	1	1%	0	0%
Engineering	4	13%	0	0%	10	12%	0	0%
Financial Services	0	0%	12	86%	0	0%	51	94%
Healthcare	1	3%	0	0%	1	1%	0	0%
Information Technology	3	9%	0	0%	8	10%	0	0%
Insurance	0	0%	2	14%	0	0%	3	6%
Leasing	1	3%	0	0%	9	11%	0	0%
Oil & Gas	0	0%	0	0%	1	1%	0	0%
Power & Utilities	1	3%	0	0%	3	4%	0	0%
Professional service	0	0%	0	0%	2	2%	0	0%
Real Estate	16	50%	0	0%	19	23%	0	0%
Retail	0	0%	0	0%	2	2%	0	0%
Telecommunication	0	0%	0	0%	5	6%	0	0%
Tourism and Hospitality	0	0%	1	8%	1	1%	3	0%
Transportation	4	13%	0	0%	17	20%	0	0%
Total	32	100%	14	100%	84	100%	54	100%

Lessor Coding Results (Sample 1b)

Table 24: Coding Results (Sample 1b)								
Coding Results Overall Position								
Measure	DP Lessors n=32				ED Lessors n=84			
	<u>Mean</u>	<u>Std. Dev.</u>	<u>Min.</u>	<u>Max.</u>	<u>Mean</u>	<u>Std. De.</u>	<u>Min.</u>	<u>Max.</u>
RoU_SCORE	-1.06	1.34	-2	2	-1.08	1.11	-2	1
KI_SCORE	-1.34	2.97	-7	6	-3.68	3.55	-10	9
KI_NO_ANSWERS	4.78	3.41	1	8	6.65	3.79	0	11
Coding Results Key Issues								
#KI	DP Lessors n = 32			ED Lessors n = 84				
	<u>n.</u>	<u>Mean</u>	<u>Top argument</u>	<u>n.</u>	<u>Mean</u>	<u>Top argument</u>		
KI1	12	-0.50	Accounting quality					
KI2	15	0.60	Accounting quality	54	-0.44	Accounting quality		
KI3	16	-0.63	Accounting quality	35	0.71	Accounting quality		
KI4	18	-0.33	Accounting quality	65	-0.85	Accounting quality		
KI5	19	-0.79	Accounting quality	69	-0.97	Accounting quality		
KI6	15	-0.73	Feasibility of application	61	-0.87	Accounting quality		
KI7	14	-0.43	Accounting quality	62	-0.71	Accounting quality		
KI8	12	0.17	Accounting quality	38	-0.16	Accounting quality		
KI9				38	-0.42	Accounting quality		
KI10				39	-0.33	Accounting quality		
KI11				52	-0.50	Feasibility of application		
KI12				57	-0.51	Feasibility of application		

Introducing the results for lessors, we notice that the latter took the same opposing position towards the RoU Model both in the DP and in the ED, which is relatively more negative than for lessees. Yet, the KI_SCORE of lessors is not as negative as for Sample 1a. Analyzing lessors CLs, we indeed noticed that lessors tended to concentrate more on opposing to the RoU Model as a whole, rather than focusing on the single components that would smooth the

adverse impact on lessees' financial statements.¹³ Such a trend is clearly justified by the fact that lessors, on average, are more concerned about the impact of the RoU Model on their business model, rather than being concerned with the single KIs, although these would open the door to structuring opportunities. Comparing the RoU_SCORE of Sample 1b with Sample 1a, it appears that the lessors are by far more opposed to the RoU Model than lessees.

The patterns identified for each KI and the top arguments do not significantly differ from what we observe for the Sample 1a. Again, KI2 (DP) and KI3 (ED) are positive; KI6 (DP), KI11 and KI12 (ED) tend to present arguments on internal compliance costs. The only outlier compared to previous results is KI8 (BS presentation), which is slightly positive for the DP and negative for the ED, probably because it is not perceived as a substantial compliance cost in the DP, yet perceived as such in the bundle or requirements of the ED.

Financial Services Coding Results (Sample 1c)

Firms belonging to Sample 1c portray a peculiar position, compared to the previous groups. The RoU_SCORE does not change for the DP and the ED. Like all the other subsamples presented above, the financial services present mostly accounting-related arguments to support their position. KI6 and KI11 are the only exceptions with equal presence of type 2 arguments. Firms support KI7 (subsequent measurement) for the DP, as well as KI8-10 (presentation requirements) at both stages. This position towards the presentation KIs is understandable considering the nature of Sample 1c: Being lessees, lessors and users of financial statements at the same time, they might favor changes compared to the way financial statements are presented, to improve credit decisions and financial analysis.

Table 25: Coding Results (Sample 1c)								
Coding Results Overall Position								
Measure	DP Financial Services n=14				ED Financial Services n=54			
	Mean	Std. Dev.	Min.	Max.	Mean	Std. Deviation	Min.	Max.
RoU_SCORE	-1.06	1.34	-2	1	-1.08	1.11	-2	1
KI_SCORE	-2.00	2.72	-6	4	-3.00	3.11	-9	3
KI_NO_ANSWERS	7.21	2.75	1	8	6.72	3.90	0	11
Coding Results Key Issues								
KI#	DP Financial Services n=14			ED Financial Services n=54				
	n.	Mean	Top argument	n.	Mean	Top argument		
KI1	10	-0.60	Accounting quality					
KI2	10	-0.40	Accounting quality	33	-0.45	Accounting quality		
KI3	11	-0.45	Accounting quality	22	0.64	Accounting quality		
KI4	10	-0.60	Accounting quality	42	-0.90	Accounting quality		
KI5	12	-0.67	Accounting quality	46	-1.00	Accounting quality		
KI6	11	-0.64	Accounting quality	38	-0.95	Acc. quality, Feasibility of application		
KI7	12	0.50	Accounting quality	40	-0.40	Accounting quality		
KI8	9	0.33	Accounting quality	25	0.12	Accounting quality		
KI9				24	0.00	Accounting quality		
KI10				23	0.04	Accounting quality		
KI11				36	-0.44	Acc. quality, Feasibility of application		
KI12				45	-0.47	Accounting quality		

6.3.3 Industry Associations' Lobbying Activity

Analyzing the CLs submitted by Sample 2 (57 for the DP and 74 for the ED), we find slightly different patterns compared to the core lessee sample. First and foremost, we notice that

¹³ Moreover, lessors were more prone to answer to lessor-related issues, which for us are outside the scope of this thesis.

industry organizations RoU Position is consistently more negative for both the DP and the ED; opposed to the lessee subsample, the industry position becomes more negative for the ED compared to the DP. The KI_SCORE, on the other hand, is close to the lessees' pattern described above, with more negative answers for the ED than for the DP. We can generalize such results by stating that industry organizations seem to be, on average, more opposed to the RoU Model – both for the DP and the ED. They both oppose the KIs like lessees and express a more negative position on the RoU Model overall, arguing that the current standard model is still suitable and a simple increase in disclosures would solve lease-related criticism.

The KI pattern for industry associations resembles the one described for lessees. Again, the only Boards' positions supported are KI2 (DP) and KI3 (ED), indicating a similar logic as for the lessee sample. Overall, type 3 arguments dominate once again, while type 2 is most frequently mentioned for KI3, KI6, KI11 and KI12, similar to the lessee sample. For KI3, industry organizations argue that accounting for purchase options, as discussed in the DP, is simply unfeasible for companies due to the complexity of estimates. All in all, we find a remarkable consistency with the lessee sample regarding the pattern of answers; nonetheless, the industry association sample distinguishes itself to be not only opposed to the single KIs, but being more straightforward in being against the RoU Model, persisting a strong opposition over time both in relation to the DP and to the ED.

Table 26: Coding Results (Sample 2)								
Coding Results Overall Lobbying Position								
Measure	DP Industry associations n=57				ED Industry Associations n=74			
	Mean	Std. Deviation	Min.	Max.	Mean	Std. Deviation	Min.	Max.
RoU_SCORE	-1.27	1.148	-2	2	-1.36	1.037	-2	2
KI_SCORE	-2.2	2.851	-8	3	-4.8	3.338	-11	4
KI_NO_ANSWERS	6.08	3.305	1	8	6.72	3.991	0	11
Coding Results Key Issues								
KI#	DP Industry Associations n=57			ED Industry Associations n=74				
	n.	Mean	Top argument	n.	Mean	Top argument		
KI1	36	-0.17	Accounting quality					
KI2	39	0.44	Accounting quality	60	-0.88	Accounting quality		
KI3	39	-0.74	Feasibility of application	46	0.35	Accounting quality		
KI4	39	-0.85	Accounting quality	61	-0.98	Accounting quality		
KI5	40	-0.9	Accounting quality	70	-0.96	Accounting quality		
KI6	39	-0.79	Accounting quality	51	-0.87	Feasibility of application		
KI7	42	-0.14	Accounting quality	55	-0.71	Accounting quality		
KI8	31	-0.1	Accounting quality	37	-0.51	Accounting quality		
KI9				34	-0.63	Accounting quality		
KI10				33	-0.77	Accounting quality		
KI11				40	-0.69	Feasibility of application		
KI12				47	-0.58	Feasibility of application		

6.3.4 Further Considerations on Argument Types

As described in the methodology section, we did not only register the overall position towards the RoU Model and the position to each KI, but we also have recorded the type of arguments used. Of those, we already presented the findings for the KIs (aggregated). For the RoU Model arguments we applied the argument taxonomy from Appendix B. In Table 27 below, we observe a clear tendency to present several (on average, 3-4) arguments supporting a firm's

position, with industry organizations and financial services presenting the most arguments, the former probably due to their strong opposition to the standard (and representativeness of the whole industry) and the latter because of their hybrid nature.

As for the analysis of KI arguments, accounting quality arguments (type 3) dominate the other types. In total, we counted more than 900 accounting quality related arguments in 469 CLs. Firms tend to oppose the RoU Model due to a lack of guidance, a lack of a consistency between lessee-lessor accounting and due to concerns about the capitalization reflecting the economic substance of most OL contracts. Preparers question the substance of the OL contract (3a/b). Further, they tend to oppose to the new model based on a cost-benefit argumentation (3f). Also, they claim that some components of the suggested lease payments of the RoU Model (e.g. purchase options, contingent rentals) do not represent liabilities, and thus violate the definition of a liability as defined in the IFRS Framework (3c).

Operational feasibility arguments (type 2) related to the RoU Model represent the second most often used type of argumentation. From a practical perspective, preparers see the RoU Model as too onerous to be implemented, leading to a substantial burden to preparers in terms of compliance costs, especially regarding the required time and costs to collect all existing lease information and re-assess them (2a, 2b), both for existing and future lease contracts. We also observe that firms oppose the RoU Model due to the complex required estimates of the lease term, purchase options and contingent rentals (2b).

Table 27: Coding Results RoU Model Arguments									
Argument Type	DP				ED				Both
	<u>Lessees</u>	<u>Industry Assos</u>	<u>Lessors</u>	<u>Financial Services</u>	<u>Lessees</u>	<u>Industry Assos</u>	<u>Lessors</u>	<u>Financial Services</u>	<u>Total</u>
Type 1: Expected Economic Consequences									
1a	6	21	3	2	29	37	31	14	143
1b	12	21	4	4	28	34	25	21	149
1c	0	6	0	0	2	9	5	10	32
1d	0	0	0	0	0	6	0	0	6
Total Type 1	18	48	7	6	59	86	61	45	330
Type 2: Feasibility of Application of RoU Model									
2a	19	26	11	5	53	43	26	22	205
2b	21	23	11	7	52	57	40	24	235
2c	19	16	5	5	50	38	33	17	183
2d	0	0	0	1	2	0	0	0	3
Total Type 2	59	65	27	18	157	138	99	63	626
Type 3: Accounting Quality									
3a	28	38	21	9	37	62	47	29	271
3b	21	22	13	6	39	43	31	17	192
3c	18	19	10	3	35	34	22	14	155
3d	5	4	0	1	5	3	3	1	22
3e	4	7	1	0	9	13	8	4	46
3f	16	13	5	5	36	45	26	15	161
3g	9	8	4	2	10	12	9	5	59
Total Type 3	101	111	54	26	171	212	146	85	926
Tot. N. per CL	3.70	3.93	2.75	3.60	3.65	4.13	3.64	3.56	-

Economic consequences arguments (type 1) are now mentioned last: Consistent with the KI argument patterns, those arguments related to adverse impacts on businesses and industries are not as frequently mentioned as types 2 and 3. This trend is maintained for all the subsamples (lessees, industrial organizations, lessors and financial services) and both for the

DP and ED. Type 1 arguments are more used in the ED rather than in the DP and mentioned by industry associations and lessees primarily in relation with KI7 (secondary consequences of the FLE) and KI4-5 (secondary consequences from the magnitude of the adverse primary effects). Industries making most usage of outcome-oriented arguments are retail, telecommunication, power & utilities, and oil & gas.

6.4 Conclusion on Lobbying Activity

The descriptive statistics (coding results) on the lobbying activities of preparers and industry associations delivered interesting insights. Regarding the sample distribution, we found that preparers from Western countries were most active in lobbying. The sample is fairly diversified with regards to the industry. Yet, on average, industries expected to suffer the most from the RoU Model lobbied more represented (retail, telecom, power&utilities, oil&gas).

In general, we observed similar patterns in coding results between (and within) Sample 1 and Sample 2. Yet, differences were also found. CLs of industry associations were most opposing both to the RoU Model and the KIs; lessors were strongly opposed to the RoU Model, whereas lessees were more strongly against the single KIs. While lessors challenged the whole RoU Model because its implementation may threaten their business models, lessees took the inverse approach, i.e. they unwillingly recognized the new lessee accounting but tried to lobby against each KIs in order to smooth any adverse impact. Within this pattern, financial services show their hybrid nature especially with their lobbying position on the presentation-related KIs.

Regarding the dominance of accounting-related arguments: These findings are in contrast to previous studies, for which Yen et al. (2007) claimed that business and industry-related arguments are most commonly used. Nonetheless, our taxonomy of arguments is not completely comparable with previous studies, which oversimplified the argument categorization and usually reported the cost-benefit relation as a business argument: Our advancement in this direction reveals a departure from previous studies.

Taking into account that the primary goal of the Boards was to develop high-quality standards for users (but considering the feasibility of their application from a preparer perspective), one might question whether preparers tend to defend their position presenting accounting-related quality arguments in the first place, while adding type 1 and 2 to reinforce their views with a primary hidden rationale of smoothing negative economic impacts (Watts & Zimmerman 1979). Kwok and Sharp report a piece of interview with one Board member: "I just throw it [the CL] away. [...] It is their problem. I don't think I give a lot of weight to comment letters which say they do not want to do it because it is going to force change on them... These letters are very unimpressive... Good arguments are those that say, for example, that this piece of information is not useful to anyone" (Kwok & Sharp 2006, p.84). Our analysis suggested that preparers were seemingly aware of this circumstance, and accordingly, in the comment periods on leases, used arguments to which the Boards are presumably most receptive.

7. Lobbying Rationale

With the review of existing research, we introduced papers that theorized and empirically evaluated the underlying rationale of preparers' lobbying activity, namely the drivers of their lobbying position (Chapter 7.1) and lobbying decision (Chapter 7.2). In the respective sections of this chapter, we will analyze our case study of lease accounting with the aim to answer the previously articulated Hypotheses LP₁₋₈ and LD₁₋₅ (see Chapter 5). Key to these analyses are the previous coding results. As a final step, we integrate both levels of analysis in Chapter 7.3.

7.1 Analysis of Lobbying Position

As mentioned above, the focal question for this subchapter is to determine what drove lessees to take a certain lobbying position in their submitted CLs. Speaking about drivers, we refer to the firm-specific exposure to the proposed standard changes, the social environment (industry and industry associations), and past lobbying experiences. It is hence of interest to understand variations in the lobbying positions towards the RoU Model and the KIs of lessee accounting.

While being part of the holistic analysis of preparers' lobbying on accounting standard setting, this subchapter is of particular importance to contribute to two of the targeted advancements of existing research. First, we devote particular attention not to overly simplify the expressed lobbying position (Ang & Gallery 2000), by separating two levels of lobbying position that were coded in the chapter before (RoU_SCORE and KI_SCORE) and examining the interplay among those. Second, we explicitly take an industry perspective to comply with its importance.

7.1.1 Methodology

In order to analyze the rationale underlying lobbying positions, we chose a hybrid approach based on quantitative and qualitative methods; with the former dominating.

Quantitative Analysis Approach

Comparable studies commonly applied statistical regressions to examine the rationale of lessees' lobbying positions. We followed them since regression techniques are state-of-art in scientific research to find statistically significant patterns within larger firm populations, for which one can claim empirical validity. Yet, as regressions are very high-level forms of analysis, the danger lies in overseeing obvious and more easily retrievable evidence. Hence, we supplemented our regressions by qualitative discussions and number-based observations.

By running regression models, we aimed at obtaining evidence whether to verify or falsify the developed Hypotheses LP₁₋₇. The question is whether the suggested drivers do explain the high-level lobbying position towards the RoU Model (RoU_SCORE) and the lower-level position towards the KIs (KI_SCORE), which served as our dependent variables [DV] in the regressions. Yet, due to the ordinal scale of our DVs, which represent outcome categories, we could not apply the frequently used linear regression, since the assumptions of ordinary least squares regressions are violated when it is applied to non-interval DVs (University of California 2011).

Accordingly, we opted for ordinal regression models, referred to as PLUM in SPSS. This type of regression allows to "build models, generate predictions and evaluate the importance of various predictor variables in cases where the dependent (target) variable is ordinal in nature" (IBM 2011). Ordinal regressions belong to the category of generalized linear models and

mainly aim at predicting cumulative probabilities for the categories of the DV's outcome. For each categorical outcome separate equations are built, according to this form (IBM 2011):

$$\text{link}(y_{ij}) = \theta_j - [\beta_1 x_{i1} + \beta_2 x_{i2} + \dots + \beta_p x_{ip}]$$

where

link (y_{ij})	is the chosen link function for the dependent variable
g_{ij}	is the cumulative probability of the j^{th} category for the i^{th} case
q_j	is the threshold for the j^{th} category
p	is the number of regression coefficients
$x_{i1} \dots x_{ip}$	are the values of the independent variables for the i^{th} case
$b_1 \dots b_p$	are regression coefficients

The model has a few distinct properties that are important to mind, which lead to the result that the model delivers so called 'parallel lines', one for each outcome category (Gujarati 2002). Another important feature is that one can optimize the model by choosing the most suitable link() function that suits the distribution of the DV. In our case, we applied PROBIT, LOGIT and N-LOGLOG functions, decided on a case-by-case basis. Further, we did not run bivariate models as we supposed that the entirety of hypothesized independent variables [INDV] jointly explains the complex lobbying position. Thus, bivariate results would pretend statistically significant relationships that are likely not to hold in a larger context with interferences from other INDVs. We decided to use multivariate models instead.

Model Input and Data Collection

Throughout this chapter, we mainly used the Subsample 1a (lessees), introduced in Chapter 6, for the purpose of the regression analysis, since the model is suited to the expected adverse effects on preparers that mainly function as lessees. Especially, LP1-3 and their underlying proxies are not appropriate to be applied on the other subsamples, also minding the scope limitation to lessee accounting. Therefore, the understanding of lessees' lobbying position is of priority. Yet, some test-runs were done on the Subsamples 1b and 1c for the KI_SCORE.

As explained, we used RoU_SCORE and KI_SCORE as our two DVs for the regressions. With our models we aimed at explaining them, and thereby the rationale behind the lobbying position. The values for both DVs were retrieved based on primary data, the previously introduced CL coding. Corresponding descriptive statistics were presented in Chapter 6. RoU_SCORE is for both, the DP and ED coding scaled to an interval of $\{-2 \leq Z \leq 2\}$. KI_SCORE varies depending on the stage referred to due to the number of involved KIs $\{-11/9 \leq Z \leq 9/11\}$.

Proxies were defined based on Hypotheses LP₁₋₆. In total, the regression models will comprise nine INDVs (INDV1-9), which are listed below in Table 28. The table shows the proxy name and abbreviation, the related measure and its interval, the DataStream item code (if applicable), the underlying hypothesis and the regression model the INDV was used for. For INDV1-4, we retrieved secondary data from DataStream (Thomson Reuters). The data was extracted for two different points in time. For the subsample of lessees lobbying on the DP, we used data of the fiscal year ending December 31, 2008. For the ED subsample, we retrieved data for the fiscal year ending December 31, 2009. These points in time are the latest reporting dates before the respective CL submission, and thus, the relevant data extraction dates.

Table 28: Proxy Overview Lobbying Position									
Abrev.	Proxy Name	Measure	Interval	DataStream	Hypothesis	M1 - RoU		M2 - KI	
INDV1	BS_EFFECT	= (CAPOL / TA)	{0 ≤ R}	18141 / 02999	LP1/2	x		x	
INDV2	IS_EFFECT	= (OP / OLE)	{0 ≤ R}	01250 / 18140	LP1	x		x	
INDV3	COV1_LEV	= (LTD / CE)	{0 ≤ R}	03251 / 03501	LP3	x		x	
INDV4	COV2_ICR	= (EBIT / Total Interest)	{0 ≤ R}	08291	LP3	x		x	
INDV5	RoU_SCORE	Coding Result	{-2 ≤ Z ≤ 2}		LP4			x	
INDV6	PAST_LOB_DP	Event Count	{0 ≤ N ≤ 4}		LP5	x		x	
INDV7	PAST_LOB_ED	Event Count	{0 ≤ N ≤ 11}		LP5		x		x
INDV8	ASSO_RoU_SCORE	Coding Result	{-2 ≤ Z ≤ 2}		LP6	x		x	
INDV9	ASSO_KI_SCORE	Coding Result	{-11 ≤ Z ≤ 11}		LP6			x	
CV1	KI_NO_ANSWERS	Answer Count	{0 ≤ N ≤ 11}		n/a			x	
CV2	INDU_RETAIL	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV3	INDU_ENERGY	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV4	INDU_TELECOM	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV5	INDU_HEALTH	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV6	INDU_REAL	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV7	INDU_FINANCIALS	Dummy Variable	{0 ≤ N ≤ 1}		LP7	x		x	
CV8	INDU_OTHER	Dummy Variable	{0 ≤ N ≤ 1}		LP7				
CV9	GEO_EUROPE	Dummy Variable	{0 ≤ N ≤ 1}		n/a				
CV10	GEO_NAMERICA	Dummy Variable	{0 ≤ N ≤ 1}		n/a	x		x	
CV11	GEO_OTHER	Dummy Variable	{0 ≤ N ≤ 1}		n/a	x		x	

Most measures are quite straight forward. INDV5/8/9 result from our previous coding. INDV5 is used to determine whether the overall lobbying position towards the RoU Model also takes its impact on the positions lessees express with regards to the KIs. INDV8/9 express the average lobbying positions of associated industry associations. INDV6/7 gives the number of submitted CLs during the past years on other IASB due processes. The data was generated based on own data collection of publically available CLs. For INDV6-9, we described the data extraction in the method part of Chapter 7.2, as they are mainly used for the lobbying decision. This leaves us with the four financial proxies INDV1-4, which are now explained in some more detail.

INDV1/2 were chosen to capture the adverse financial statement effects. INDV1 approximates the BS_EFFECT as the ratio of the expected amount of capitalized OLs [CAPOL] divided by the total assets [TA]. We derived the amount of CAPOL based on the commonly applied multiple approach, which suggests to multiply the committed minimum lease payments [MLP] for year 1 by a multiple of 7 to 8 (UBS Investment Research 2010). Following this approach, and thereby avoiding the huge data inconsistency when retrieving data to capitalize committed lease payments year by year, we used a multiple of 7.5 to approximate CAPOL. Then, we set CAPOL in relation to TA to receive a relative firm-specific relative ratio, capturing the magnitude of the expected adverse capitalization effect. We did not decide to directly specify BS_EFFECT as a measure of e.g. increase in leverage or increase in debt, as those ratios are biased since the ratios show large effects for relatively unleveraged firms, and thus, disturb the picture we want to draw. Yet, at the same time, INDV1 is also the most suitable proxy to approximate the standard compliance and proprietary costs. As no data, e.g. on the number of lease contacts is available, BS_EFFECT probably best grasps the relative burden of compliance and sensitivity of the data, in terms of importance, related to the standard changes. In this hybrid function, BS_EFFECT is of particular importance. Another upside of using one measure to capture the three effects is that it avoids high correlation of similar measures.

Next, INDV2 is calculated as the ratio of operating profit [OP] over operating lease expenses [OLE] of the last period. Hence INDV2 is expressed as a coverage ratio. This 'buffer' is supposed to first signal the relative weight of OLE for the lessee and second it indicates the vulnerability of a preparer towards possibly induced volatility, i.e. by the FLE.

Last to mention are INDV3/4, which both approximate the tightness of debt constraints, prior to the potential adverse financial statement effects. While COV1_LEV captures the lessees' current leverage ratio (long-term debt over common equity), COV2_ICR is a measure of the recent interest coverage ratio. INDV3 is a typically used BS-related covenant and INDV4 for the IS, respectively. Both signal the danger of covenant breaches or limited financing accessibility.

Besides, dummy variables were included to control for the number of answers made in reply to the KIs (CV1), the industry (CV2-8) and geography (CV9-11). The classification was described in Chapter 6. Some categories were clustered together to reduce the number of CVs and increase cluster sizes, wherefore mean values of proxies and qualitative characteristics were taken into consideration. From the original industries, we merged Oil & Gas with Utilities & Power to INDU_ENERGY; Retail with Consumer Products to INDU_RETAIL, and Financials with Insurances to INDU_FINANCIALS. Healthcare, Telecom and Real Estate remained unchanged due to proxy differences. Remaining sectors were clustered as INDU_OTHERS. CV1-7 also serve the purpose to derive evidence for Hypothesis LP₇. The geographies were divided GEO_EUROPE, GEO_NAMERICA and GEO_OTHERS.

Regression Model Construction and Regression Proceedings

Based on these variables, we defined our regression models. The last two columns of Table 28 indicate which INDV and CV were included in which initial regression model. For the KI_SCORE regression Model [M2], we used all of the INDVs we used for the RoU_SCORE Model [M1] but added INDV5/8. We run each model twice, once for the subsample of DP lobbyists and for the ED, respectively. For both, DP and ED subsamples, the model remained unchanged, except for the interchange of INDV6/7 and that we added CV1 (M2). One CV of each type was excluded to avoid the 'Dummy Variable Trap' (Gujarati 2002), starting with INDU_OTHER and GEO_OTHER, but due to correlation with GEO_AMERICA, GEO_EUROPE was ultimately excluded.

When it comes to the regression procedures, we applied consistent elimination processes in each round. First, we eliminated too highly correlated variables, based on the Pearson-Correlation-Matrix. Yet, no variables showed high correlation values, except the mentioned CVs, GEO_AMERICA and GEO_EUROPE. Next, we excluded insignificant CVs one by one until no highly insignificant CVs were left in the model (insignificance defined as >0.300). This is justified by the fact, that the number of variables can inflate results, and thus, also reduces the goodness of fit (pseudo R²s). Yet, insignificant INDVs, which we hypothesized, remained in the model regardless of their significance, for consistency of presentation.

Statistical Tests

Commonly applied statistical tests were conducted. For the overall model fit, the chi-square statistic was considered, to approve that the model achieves improvement compared to an intercept-only model, telling us whether the model gives better predictions than guessing (IBM 2011). In addition, the Pearson chi-square statistic was consulted to test whether observed data is inconsistent with the model; if values are insignificant, the null hypothesis is rejected.

Another assumption underlying ordinal regressions is that the relationship between each pair of outcome groups is the same, i.e. outcomes are described by the same coefficients. It is often referred to as the “proportional odds assumption” and tested by the ‘Test of Parallel Lines’, where the null hypothesis should be rejected (University of California 2011).

Validity and Reliability of Method and Data

Before turning to the interpretation of regression results, we comment on the reliability and validity of the method applied and data used. The reliability of data in our longitudinal study is reckoned to be reliable due to DataStream as source of extraction (INDV1-4). The sample breakdown happened free from bias as well as the classification. Other data, then retrieved from DataStream, such as INDV6/7/9, is based on publicly available sources. With regards to the DVs, both authors analyzed firms' CLs independently to ensure reliability and consistency with the coding system. Finally, SPSS is used to ensure the accuracy of the quantitative results. Hence, we maintain that both our data and method ensure a high degree of reliability. Yet, when coding and classifying firms, i.e. according to their business model, a limited degree of subjectivity is unavoidable due to the very nature of the data extraction methods.

Regarding the methodology, we intensively benchmarked our study against existing research, and partly borrowed from many studies on the subject (see Chapter 2.1), i.e. with regards to applied proxies. However, since we aimed at advancing previous research, methodological consistency could only be retained within the borderlines of other studies. The method applied for the content analysis is also adequate to ensure credibility of our findings. As such, we ensure the validity of the methodology of our case study. Due to its peculiar longitudinal character, there is limited ability for us to benchmark results against previous studies.

Regression Results and Inferences

In case the statistical tests approved the results and model, we drew conclusions on the overall model based on the commonly used coefficients of determination for non-linear regression, namely pseudo R^2 s. We opted for Nagelkerke's R^2 , which is – as the ordinary adjusted R^2 – adjusted to the interval from 0 to 1 (Gujarati 2002). Those coefficients are also referred to as the goodness of fit and reflect the proportion of variance in the CV that is associated with the set of INDVs. Judging upon the explanatory power of our Models M1 and M2 in each stage, we defined a value of $R^2 \geq 0.3$ as the lower threshold to consider the model as having partial explanatory power of the lobbying position. While this value is set at a low level, it is a typical benchmark in the field of study we are engaging in.¹⁴ However, we define the threshold for a model with high goodness of fit at a level of adj. $R^2 \geq 0.5$. Models with $R^2 < 0.3$ are rejected.

With respect to the proxies suggested by the Hypotheses LP₁₋₇, we mainly decide upon their rejection based on whether they were found significant within the context of the multivariate ordinal regression. Judging upon their significance, we use the typical scheme of significance (sign. ≤ 0.010 = *** / sign. ≤ 0.050 = ** / sign. ≤ 0.100 = *). Thus, all proxies that are significant at least at a 10% level are approved for the model. Yet, the direction of the beta estimate needs to be considered for alignment with our hypothesis. This statistical evidence will be our main decision criteria for the hypothesis rejection/non rejection.

¹⁴ This threshold was suggested by an econometrics professor at Stockholm School of Economics.

7.1.2 Lessee Perspective

Now, we first turn to the analysis of lessees' lobbying position.

Descriptive Statistics

Starting with the descriptive statistics, Table 29 presents the input of the regression Models M1 and M2, for both the DP ad ED period for the corresponding Subsample 1a, lessees.

Table 29: Descriptive Statistics Lobbying Position (Sample 1a)											
Variables		Discussion Paper (DP)					Exposure Draft (ED)				
Name	Abrev.	N	Min	Max	Mean	Std. Dev.	N	Min	Max	Mean	Std. Dev.
RoU_SCORE	DV1	48	-2,00	2,00	-0,94	1,16	106	-2,00	1,00	-0,67	1,25
KI_SCORE	DV2	48	-8,00	4,00	-2,31	2,92	106	-11,00	5,00	-4,28	2,95
BS_EFFECT	INDV1	48	0,01	0,61	0,12	0,13	106	0,00	2,46	0,24	0,38
IS_EFFECT	INDV2	48	0,17	118,65	16,18	20,41	106	0,00	66,94	11,51	14,48
COV1_LEV	INDV3	48	0,03	5,80	0,74	0,92	106	0,00	4,91	0,84	0,92
COV2_ICR	INDV4	48	0,57	45,19	10,06	11,97	106	0,18	99,05	9,71	16,39
PAST_LOB_DP	INDV6	48	0,00	4,00	0,54	1,01	106	0,00	4,00	0,13	0,52
PAST_LOB_ED	INDV7	48	0,00	7,00	0,92	1,57	106	0,00	7,00	0,58	1,08
ASSO_RoU_SCORE	INDV8	48	-2,00	1,00	-0,69	0,95	106	-2,00	1,00	-0,57	0,99
ASSO_KI_SCORE	INDV9	48	-7,00	1,00	-1,21	1,92	106	-10,00	0,00	-2,21	3,46
KI_NO_ANSWERS	CV1	48	1,00	8,00	7,15	2,68	106	0,00	11,00	6,98	3,31

Figure 7 shows the distribution of the DV for M1 (RoU_SCORE). From the histograms, the previously depicted shift to a more positive lobbying position from DP to ED is observable.

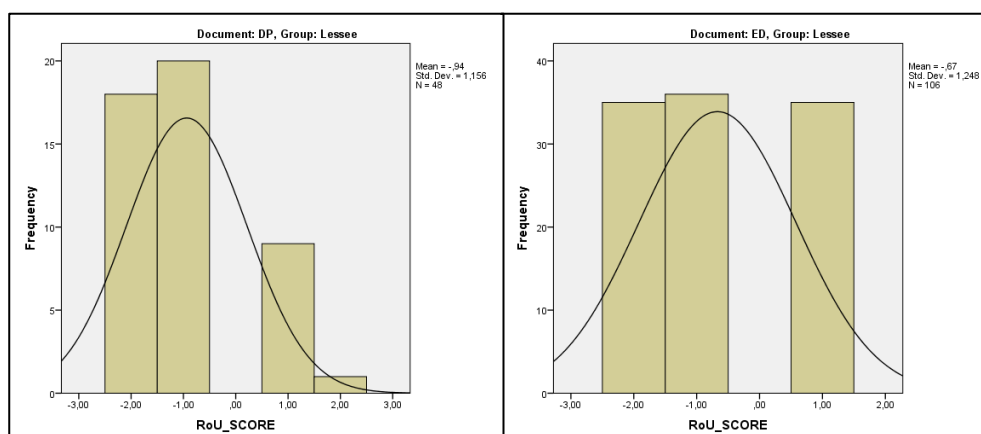


Figure 7:
Histogram
RoU_SCORE
(Sample 1a)

Next, Figure 8 shows the DVs' distribution for M2 (KI_SCORE). Both figures are also the decision basis for the chosen link()-function for the ordinal regression.

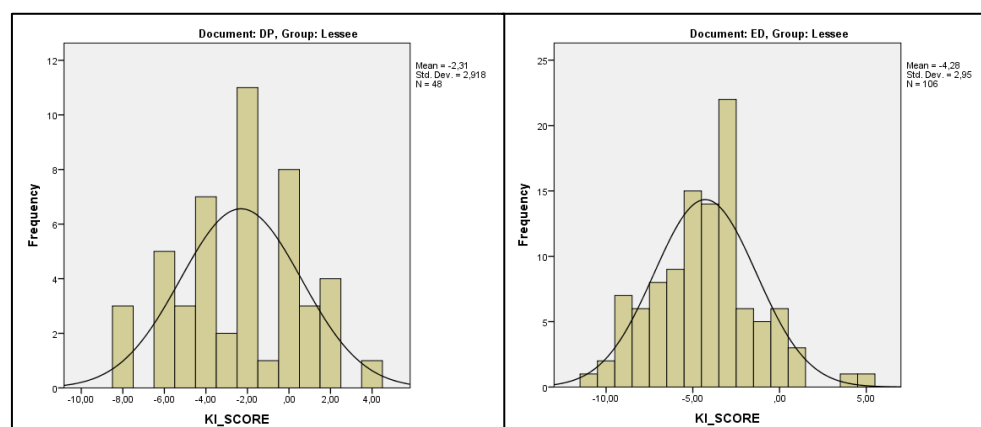


Figure 8:
Histogram
KI_SCORE
(Sample 1a)

Analysis Results

Next, we turn to the regression results for our Models M1 and M2 (each twice for DP and ED), starting with regression of the RoU_SCORE (M1), followed by the KI_SCORE (M2). As we mentioned before, one has to chose the appropriate link (-)function for an ordinal regression model, which is decided upon based on the distribution patterns, shown in the histograms. For M1, we opted for a negative log-log function¹⁵ for the DP, while using a logit¹⁶ for the ED. On the contrary, probit¹⁷ was used for both stages in M2. Table 30 summarizes the results.

Table 30: Parameter Estimates Regression Outcome (M1)								
Variables			Discussion Paper (DP)			Exposure Draft (ED)		
Name	Abrev.	Expect.	Estimate	Wald-Test	Sign.	Estimate	Wald-Test	Sign.
BS_EFFECT	INDV1	-	1,317	0,533	0,465	-0,262	0,237	0,626
IS_EFFECT	INDV2	+	0,009	0,865	0,352	0,014	1,008	0,315
COV1_LEV	INDV3	-	-0,248	0,753	0,385	-0,136	0,378	0,538
COV2_ICR	INDV4	+	0,005	0,075	0,784	0,006	0,260	0,610
PAST_LOB_DP	INDV6	±	0,246	1,845	0,174	-	-	-
PAST_LOB_ED	INDV7	±	-	-	-	-0,096	0,277	0,599
ASSO_RoU_SCORE	INDV8	+	-0,047	0,053	0,819	-0,059	0,092	0,762
INDU_TELECOM	CV4	n/a	-	-	-	1,215*	3,246	0,072
GEO_AMERICA	CV10	n/a	-	-	-	1,128***	8,221	0,004
GEO_OTHERS	CV11	n/a	-1,274	2,231	0,135	-	-	-

As we can observe from the table, regression results did turn out to be rather disappointing. The model, as specified, has a very low goodness of fit for both the DP and ED. Nagelkerke's R^2 took a low value (DP: 0.161 / ED: 0.124). All tests conducted showed with little surprise signs of low model fit, though their respective null hypothesis, which were not verified. Only for the ED, two proxies were approved to be significantly associated with the underlying categorical RoU_SCORE. Yet, these were the CVs INDU_TELECOM and GEO_AMERICA, while none of the hypothesized INDVs was supported. Both estimates show signs of positive association with the DV; which is in both cases in line with the observed variations in mean RoU_SCORES of those two subsamples. Subsequently, Table 31 shows the results for regression M2.

Table 31: Parameter Estimates Regression Outcome (M2)								
Variables			Discussion Paper (DP)			Exposure Draft (ED)		
Name	Abrev.	Expect.	Estimate	Wald-Test	Sign.	Estimate	Wald-Test	Sign.
BS_EFFECT	INDV1	-	-6,738***	14,032	0,000	0,096	0,101	0,750
IS_EFFECT	INDV2	+	-0,008	0,714	0,398	-0,001	0,035	0,851
COV1_LEV	INDV3	-	-0,085	0,199	0,655	0,140	1,335	0,248
COV2_ICR	INDV4	+	-0,026*	2,811	0,094	-0,006	0,859	0,354
RoU_SCORE	INDV5	+	0,747***	20,324	0,000	0,443***	23,778	0,000
PAST_LOB_DP	INDV6	±	-0,188	1,137	0,286	-	-	-
PAST_LOB_ED	INDV7	±	-	-	-	-0,001	0,000	0,991
ASSO_RoU_SCORE	INDV8	+	-0,038	0,034	0,854	0,078	0,314	0,576
ASSO_KI_SCORE	INDV9	+	0,164*	2,688	0,100	-0,012	0,094	0,760
KI_NO_ANSWERS	CV1	-	-0,126*	3,295	0,069	-0,135***	16,181	0,000
INDU_ENERGY	CV3	n/a	-	-	-	0,436*	2,897	0,089
INDU_TELECOM	CV4	n/a	-	-	-	0,924**	5,545	0,019
INDU_HEALTH	CV5	n/a	2,308***	6,850	0,009	-	-	-
GEO_OTHERS	CV11	n/a	0,777	1,908	0,167	0,589*	3,376	0,066

¹⁵ Negative log-log ($-\log(-\log(x))$) suitable for distributions where lower categories are more probable (IBM 2011).

¹⁶ Logit ($\log(x/(1-x))$) suitable for evenly distributed categories (IBM 2011).

¹⁷ Probit ($F-1(x)$) is suitable when the latent variable is normally distributed (IBM 2011).

In contrast to M1, Model M2, which explains the KI score, shows far better results and shows a high goodness of fit in both stages. Nagelkerke's R^2 took a low value (DP: 0.629 / ED: 0.401). All statistical tests applied, approved the model with highest possible rejection of their respective null hypotheses (chi-square test, Pearson chi-square, test of parallel lines. Thus, following the thresholds, we regarded M2 for DP as a highly and for the ED as a partly fitting model.

Reflecting upon the proxies, we found unanimously support for the proxies KI_NO_ANSWERS and RoU_SCORE at very significance levels. The other significant variables indicated divergence between the two stages. For the DP, the BS_EFFECT is supported at 0%-level with a strong negative association, as we anticipated; yet, this was not supported for the ED. The same holds for ASSO_KI_SCORE and INDU_HEALTH, which are positively associated with the KI_SCORE for the DP. On the other hand, the results show significance for three CVs in the ED period, namely INDU_ENERGY, again INDU_TELECOM and GEO_OTHER, with a positive relationship. Although COV1_ICR was approved to be significant, the direction is not as hypothesized.

As the regression indicated a high explanatory power of the RoU_SCORE and the KI_NUMBER_

Table 32: Spearman's Correlation Coefficient KI_SCORE			
	Overall	DP	ED
RoU_SCORE	0.287***	0.243**	0.331***
Sig. (2-tailed)	0.000	0.018	0.000
KI_NO_ANSWERS	-0.326***	-0.327***	-0.331***
Sig. (2-tailed)	0.000	0.001	0.000

ANSWERS for the KI_SCORE, meaning of the overall RoU Model lobbying position and the number of answered KIs towards the identified KIs, we conducted further statistical tests. In accordance with the ordinal nature of the KI_SCORE, we tested

for correlation between the variables using Spearman's Coefficient (Gujarati 2002). Table 32 presents the coefficients that express the strong rank correlations of the tested pairs, which hence support the regression results in terms of significance and direction of the estimate.

As the last analysis part for the lessee sample, we now have a closer look at a relationship that is of particular interest for our hypotheses related to adverse effects on financial statements. So far, of the INDV1-4, only BS_EFFECT was strongly supported in the case of M2 (DP). To test the relationship in more detail, we chose additional DVs (specific KI cluster) to observe if those proxies maybe have higher explanatory power on a higher-detail level of lessees lobbying position. We clustered the KIs in four groups: Scope (KI1-2); Minimum Lease Payment (KI3-5), Presentation (KI8-11) and Transition (KI12). BY summing the underlying KIs, the new DVs were created and regressed against INDV1-4 only, to explicitly test for association with the expected financial statement effects. While many of the regressions showed 'more significant' results for INDV1-4 than on an aggregated KI_SCORE level, most were still in the grey-zone above the 10% threshold. Excepted were the approvals of the Presentation KI cluster (ED) for COV2_ICR and the Transition KI12 (ED) for the BS_EFFECT, both marginally at the 10%-level. Worth noticing is also the MLP KI cluster (ED) that indicated the BS_EFFECT at an 11%-level.

Discussion

Following the presentation of the quantitative results, we now want to discuss the results and the inferences we can draw on the underlying rationale of lessees' CL submissions on the due process on leases. Looking at it from the high level model perspective, we cannot award any statistical significance to M1 in relation to the DV RoU_SCORE, since – as shown – no proxy, except for two CVs, was statistically significant. As a consequence, our findings do not support

the a) part of our Hypotheses LP₁₋₃, which supposed that the magnitude of the financial statement effects, the compliance/proprietary costs and the tightness of debt constraints, all of which are approximated by the respective proxies INDV1-4, are associated with the likelihood that a lessee takes a negative lobbying position towards the overall RoU Model proposed by the new accounting standard. One may speculate upon the reasons for this, as at a first glance, it is a surprising finding that stands in contrast to many prior studies. Not casting doubt on the content analysis scheme and the underlying financial ratios, which seem reliable and valid to us, we may consider content-wise reasons for this finding. As we pointed out in Chapter 6, when presenting the descriptive statistics on the coded lobbying position, there seems to be a tendency among preparers, especially lessees, to challenge the Boards' upon the KIs. Also, we won the impression that submitters of CLs may act strategically as they do not perceive the chance to impact the Boards' to such a degree as to change the overall model. Hence, this presumed behavior, which we further examine in Chapter 8, might cause noise to the coding results and thus disturb the statistical associations of the DV with the hypothesized proxies. On the other hand, the reason might be that in the context of international standard setting the well proven economic theory (contracting cost)-based proxies do not hold, as other factors that are connected to the lobbying decision, actually dominate the lobbying position, which underlies the lobbying decision (see Chapter 7.2). Since we cannot draw conclusions on the reasons for now, we took notice of the fact that the lobbying position with regards to the RoU Model is not explainable by the constructed Model M1 as specified by us.

Continuing with the discussion of other parameters included in M1, we could not find evidence that the past lobbying behavior (INDV6-7) influences the lobbying position taken by a lessee. This is consistent with our Hypothesis LP₅, which we formulated in the null-form due to overlapping factors. Yet, in the light of the following discussion of the lobbying decision, this is an important finding: The frequency of lobbying does not affect the position that lessees took. As this finding also holds for M2, we remain indifferent on Hypothesis LP₅ (part a/b).

As opposed to M1, the M2 model has a significantly higher goodness of fit, which is high for the DP (Nagelkerke's R^2 0.629) and still respectable for this field of research for the ED (R^2 of 0.401). M2 seems to appropriately reflect the underlying lobbying position that lessees take in response to the identified KIs posed by the Boards. However, most of the significance of M2 is due to the fact that we included the coded lobbying position for the overall RoU Model and a CV for the number of the KIs the lessee answered to. Both were, as shown, highly significant proxies (the RoU_SCORE at a 0%-level and the KI_NO_ANSWERS for the DP as well). Thus, based on the observed tendency that lessees take lobbying positions on the KI level that are positively associated with the overall model preference, we do see support for the association supposed with Hypothesis LP₄. The result can be interpreted as a support for the coding quality and as further evidence on the findings from M1, which did not support any association of the position with assumed underlying economic rationales. Further, it indicates that lobbying lessees' position on the KIs is not only based on the underlying KI in discussion, but could be motivated by an attempt to smooth the effects of the model. Hence, the answers to KIs might reflect hidden economic motives, rather than accounting quality concerns which were the most frequently argument brought forward (see Chapter 8). However, based on our results, we can only see hints in that direction, yet not confirm these suppositions.

Next, the negative relationship with the KI_NO_ANSWERS is less of a surprise since the mean KI_SCORE is negative. Thus, we controlled for this factor but did not hypothesize this relation.

Also related to the underlying lobbying position were INDV8-9; yet, this time connected to the position of associated industry associations that also lobbied. Only for M2 (DP), this assumed positive relationship was confirmed for the ASSO_KI_SCORE, but at a fairly unreliable significance level of 10%. Thus, we found partial support with regards to INDV9. However, we further examine Hypothesis LP₆ in the subsequent subchapter.

Last, we need to discuss M2 in relation to INDV1-4 and the related economic thoughts. In contrast to M1, we found partial support for the proxy BS_EFFECT that is the expected amount of OIs to be capitalized over total assets. In LP₁, we hypothesized this negative association, which yet could only be proved for the DP at 0%-level with a beta estimate of high magnitude. This showed that lessees with higher expected adverse balance sheet effects and/or higher compliance / proprietary costs took relatively more negative positions on the KIs. This is clear support for economic theory on this sub-level of the lobbying position. However, it is difficult to interpret why this changed with the ED. One might assume that early lobbyists were more severely impacted, or that for this group most of urgent KI concerns lost relevance with the Boards' amendments on the way to the ED (see Chapter 8). When further examining the KIs for the ED on a sub-cluster-level, we saw that the regressors delivered more significant results, as compared to the aggregate KI_SCORE, for the KIs related to the MLPs, presentation and transition. Overall, we found partial evidence for the b) part of Hypothesis LP₁₋₃; thus, it can be seen as an inconclusive indication that economic rationale drives the lobbying position.

All in all, Model M1 could not explain the lobbying rationale of lessees. In contrast, Model M2 showed a considerably better goodness of fit due to the association with the RoU Model position and the significance of some CVs. The higher goodness of fit was especially approved for the DP stage as here we found strong support for the BS_EFFECT. Our analysis showed that expected adverse financial effects did not drive the variation in lessees' lobbying position, except for the INDV1 (BS_EFFECT) on the KIs (DP). Yet, no association does not mean that the anticipated adverse effects did not drive lessees' lobbying position; it for now means that the magnitude of the anticipated effects in the ED stage could not explain the variations.

7.1.3 Industry Perspective

After the generic perspective on the rationale of lessees lobbying positions, we now turn to an analysis on the level of industry sub-clusters and link industry association in the discussion. We already introduced in Chapter 6 that some industries were more opposed to the RoU Model and the KIs based on average scores. In Appendix C, an overview of the descriptive statistics of Subsample 1a (lessees) segmented by industry is provided.

Analysis Results and Discussion: Industry Membership

As already seen in the previous section, we tested for industry as a CV in both models M1 and M2. Yet, they were insignificant in most of the cases. Only few turned out to be relevant on a case-by-case basis. In M1, only the telecom CV was significant at a 10%-level in explaining the RoU_SCORE for the ED. For M2, healthcare was found to be significant at a 1%-level for the DP KI_SCORE, which is due to the small cluster size for the DP that included two 'positive' KI_SCORE outliers; for the ED, telecom is – as in M1 – significant at a 5%-level, and energy at a

10%-level. As a consequence, we can at least infer that for the KI_SCORE (ED) industry influences were significant, as here the sub-clusters were rather large in size. This influence can especially be recognized for positively associated industries, where the model seemingly lacks other explanatory factors. The spotted significant CVs are largely due to higher standard deviations and more positive means of the respective sectors in a certain period.

If we rank our industry CVs based on the mean values for the RoU_SCORE and KI_SCORE, and benchmark the result with the rank in the PwC Report (PwC 2010) on the adverse effects of the lease standard, we find a substantial alignment, primarily for retail (Table 33). To further investigate this, we ran the regression models M1 and M2 again, this time clustered by our four industry groups and INDU_OTHER. When doing this, we aimed at finding evidence whether for certain industries the financial INDV1-4 behave differently than approximated in before. Yet, the results for both models showed, that only the findings of the overall models were largely confirmed, without showing particularly high explanatory power of INDV1-4 for

Table 33: KPMG Ranking vs. Mean Value Ranking

Industry	PWC	DP		ED	
Rank	Rank	<u>RoU</u> <u>SCORE</u>	<u>KI</u> <u>SCORE</u>	<u>RoU</u> <u>SCORE</u>	<u>KI</u> <u>SCORE</u>
RETAIL	1.	3.	1.	1.	1.
ENERGY	4.	4.	3.	2.	2.
TELECOM	2.	1.	2.	3.	4.
HEALTH	3.	2.	4.	4.	3.

any industry, despite one exception. For the retail industry, in line with the above ranking, COV1_LEV turned out significant at a 10%-level with the expected negative estimate. This is the case where the COV1_LEV was approved and it is exactly the industry

with the highest anticipated increase in leverage (PwC 2010). Further variations occurred among the other INDVs, such as the significance of the RoU_SCORE, which was proven highly insignificant for telecoms in the ED. Thus, this explains why INDU_TELECOM turned out to be significant in M2 (ED). The KI_SCORE for telecoms, as opposed to the other industries, did not follow the RoU_SCORE pattern. These findings add on to the accumulating evidence that indicates an underlying economic rationale in the lobbying positions taken by a lessee, even though high level regressions did only show limited support for this assumption.

Overall, we conclude that industry membership seems to be important. The results showed that some industries are significant as CVs in our models. Those patterns partially support Hypothesis LP₇, which we do subsequently not reject; we remain indifferent.

Analysis Results and Discussion: Industry Associations

Now, we turn to the industry associations. As mentioned beforehand, the overall regression results for M2 showed that the ASSO_KI_SCORE is positively associated with the KI_SCORE at a 10%-level. Further, when running M2 for lessors and financial services, we also find positive associations. The KI_SCORE is, for lessors, associated with the ASSO_KI_SCORE and, for financial services, with the ASSO_KI_SCORE, both at a 5%-level. Interestingly, the results can only be found for the DP period, which could suggest higher coordination among the individual preparers and the industry associations in early stages, as the really concerned parties might try to lobby early, when impact is perceived higher. This is in line with the finding that the BS_EFFECT is relevant for the same period only.

All in all, we conclude that the Hypothesis LP₆ is partly supported by our analysis results. Yet, since findings are not of high significance and consistency over periods, we remain indifferent towards LP₆. But results might be of interest in the light of the lobbying decision.

7.1.4 Other Preparers

Descriptive Statistics

To start with, Table 34 shows the descriptive statistics on the proxies for the lobbying position for all three subsamples for the preparers for comparative purposes. While INDV1-4 are not comparable due to the different contractual position in terms of leasing and the underlying logic of the regressors, we focus on the more qualitative proxies.

Variables		Discussion Paper (DP)						Exposure Draft (ED)					
	Name	Abrev.	N	Min	Max	Mean	Std. Dev	N	Min	Max	Mean	Std. Dev	
Lessee (1a)	RoU_SCORE	DV1	48	-2,00	2,00	-0,94	1,16	106	-2,00	1,00	-0,67	1,25	
	KI_SCORE	DV2	48	-8,00	4,00	-2,31	2,92	106	-11,00	5,00	-4,28	2,95	
	PAST_LOB_DP	INDV6	48	0,00	4,00	0,54	1,01	106	0,00	4,00	0,13	0,52	
	PAST_LOB_ED	INDV7	48	0,00	7,00	0,92	1,57	106	0,00	7,00	0,58	1,08	
	ASSO_RoU_SCORE	INDV8	48	-2,00	1,00	-0,69	0,95	106	-2,00	1,00	-0,57	0,99	
	ASSO_KI_SCORE	INDV9	48	-7,00	1,00	-1,21	1,92	106	-10,00	0,00	-2,21	3,46	
	KI_NO_ANSWERS	CV1	48	1,00	9,00	7,15	2,68	106	0,00	11,00	6,98	3,31	
Lessor (1b)	RoU_SCORE	DV1	32	-2,00	2,00	-1,06	1,34	84	-2,00	1,00	-1,08	1,11	
	KI_SCORE	DV2	32	-7,00	6,00	-1,34	2,97	84	-10,00	9,00	-3,68	3,55	
	PAST_LOB_DP	INDV6	32	0,00	4,00	0,41	0,80	84	0,00	4,00	0,08	0,47	
	PAST_LOB_ED	INDV7	32	0,00	4,00	0,41	0,95	84	0,00	4,00	0,37	0,76	
	ASSO_RoU_SCORE	INDV8	32	-2,00	1,00	-0,47	1,08	84	-2,00	1,00	-0,45	0,88	
	ASSO_KI_SCORE	INDV9	32	-5,00	1,00	-0,63	1,34	84	-11,00	0,00	-1,57	3,14	
	KI_NO_ANSWERS	CV1	32	1,00	9,00	4,78	3,41	84	0,00	11,00	6,65	3,79	
Financial Firms (1c)	RoU_SCORE	DV1	32	-2,00	2,00	-1,06	1,34	84	-2,00	1,00	-1,08	1,11	
	KI_SCORE	DV2	14	-6,00	4,00	-2,00	2,72	54	-9,00	3,00	-3,00	3,11	
	PAST_LOB_DP	INDV6	14	0,00	3,00	1,07	1,14	54	0,00	3,00	0,19	0,59	
	PAST_LOB_ED	INDV7	14	0,00	7,00	2,64	2,79	54	0,00	7,00	1,15	1,85	
	ASSO_RoU_SCORE	INDV8	14	-2,00	1,00	-0,14	0,66	54	-2,00	0,00	-0,57	0,88	
	ASSO_KI_SCORE	INDV9	14	-5,00	1,00	-0,36	1,39	54	-10,00	0,00	-1,28	2,76	
	KI_NO_ANSWERS	CV1	14	1,00	9,00	7,21	2,75	54	0,00	11,00	6,72	3,90	

Analysis Results and Discussion

Quite interestingly, findings for lessors and financial services do not differ from the lessee sample regarding the more qualitative INDVs. Consistent with the findings on the lessee sample, we could not find evidence that the past lobbying behavior (INDV6-7) influences the lobbying position taken regarding the RoU Model. On the other hand, trying to run the M2 regression model for each group on the KI_SCORE, we find that for the DP, the model fits well with the RoU_SCORE and the KI_NO_ANSWERS being most significant. For financial services, excluding INDV1-4 even improves Model M2 for the DP (Nagelkerke's $R^2 = 0.694$).

Another interesting finding regards the lessor sample, when relating its KI_SCORE with industry associations: in explaining lessors' KI_SCORE, ASSO_ROU_SCORE is significant at both stages. These findings suggest a higher coordination among lessors than lessees, due to the potential tertiary effect (business model threat); unlike for lessees, such coordination remains over time. Another factor contributing to this is potentially the high number of lobbyists from mainly North American, the real estate sector and industry associations.

Lobbying Position among Preparers

Next, we compared the lobbying position of Sample 1a with Samples 1b and 1c. Consistent with the ordinal nature of the data, we perform non-parametric tests (Wilcoxon Signed Rank-Test and Mann-Whitney U-Test) to check for the distributions of the ROU_SCORE and KI_SCORE. The distributions of lessors and lessees are substantially equal, except for the ROU_SCORE for the ED. This is consistent with what described in the descriptive statistics in Chapter 6: while lessees in the ED concentrate more on the KIs and only partially oppose the

Table 35: Comparison Lobbying Position (across Sample 2)				
Sample 1a vs. Sample 1b (Lessors)				
	DP		ED	
	RoU_SCORE	KI_SCORE	RoU_SCORE	KI_SCORE
Mann-Whitney U	716	689.5	3958.5	4305
Wilcoxon W	1244	2015.5	7613.5	10521
Significance	0.3140	0.2310	0.0400 (**)	0.2920
Sample 1a vs. Sample 1c (Financial Services)				
	DP		ED	
	RoU_SCORE	KI_SCORE	RoU_SCORE	KI_SCORE
Mann-Whitney U	208	330.5	2797.5	2296.5
Wilcoxon W	1534	421.5	9013.5	8512.5
Significance	0.0290 (**)	0.9870	0.2640	0.006 (***)

RoU Model, lessors continue to be strongly against the new leasing model. For financial services (Sample 1c), the DP RoU_SCORE distribution differs from lessees. Yet, when analyzing the KI_SCORE, the two samples do not differ, implying that financial firms perceive the key issues as negative as lessees. The more negative RoU_SCORE

could be explained by their lessor side – financial firms would be hit both by the adverse impacts as lessees, and by losing part of their business as provider of leasing financing products. In the ED, while the ROU_SCORE distribution is aligned, the KI_SCORE is not because of the noise created by the presentation KIs, which financial firms support.

Concluding, for Sample 1b and 1c we find some relevant results. The distribution of the DV of Sample 1b is relatively close to lessees, except for the RoU_SCORE in the ED. Unlike lessees, lessors continued to strongly oppose to the RoU Model – possibly because they continued to perceive the new RoU Model as a business threat (thus not trying to focus on single KIs to smooth the model impact, but rather to retain current lessee accounting).

Financial services, on the other hand, are only partly aligned with other preparers because of their hybrid nature: over time, they behaved as lessees (focusing more on KIs trying at least to smooth the impact of the new model), but bringing forward both lessee and lessor concerns; in the KI_SCORE (ED) distribution, also users' influences are clearly visible.

Relating our Hypothesis LP₈, we find some evidence of lessors taking a more negative position especially referring to the RoU Model, while we find no evidence of lessors being more negative on the KI_SCORE. Our findings do not support LP₈ part b (KI_SCORE). However, results for LP₈ part a (RoU_SCORE) point in the direction of not rejecting our hypothesis. Considering that lessors are not supposed to be impacted by adverse financial statement effects, in fact, they might even experience positive effects following the 'mirror accounting approach', the primary driver that seemingly pushed lessors to oppose to the new lessee accounting would be the threat to their business model following the standard (see Chapter 4.4). Thus, we see this as qualitative support for Hypothesis LP₈ based on the underlying rationale. However, this is not empirically tested – despite the CL coding results itself – and thus we remain indifferent, while we tendency-wise support this presumed association.

7.2 Analysis of Lobbying Decision

The focus of this subchapter is to determine what drove lessees to decide to submit a CL after establishing their lobbying position (accounting preference). With drivers we again refer to preparers' characteristics such as power/size attributes, their social environment (industry, peer pressure and industry associations), past lobbying experiences and the underlying lobbying position. Building on all the above, we aim at understanding why some preparers decided to submit CLs on the lease project as opposed to others.

7.2.1 Methodology

Before we start to describe the chosen methodology, we need to discuss the suitability of the given setting to examine the lobbying decision with quantitative techniques.

Discussion of Empirical Setting

As opposed to the lobbying position, research usually compared preparers' lobbying decision based on two samples: One sample of the lobbying preparers (same as for the lobbying position) and one random (or matched) sample of non-lobbyists. However, there is an inherent flaw in this approach, already mentioned in Chapter 2.1: Despite the fact that studies rarely separated the proxies for both analyses appropriately, they miss one important notion of the lobbying decision: When one tries to capture the lobbying decision by comparing lobbyists to a random sample, findings are disturbed by differences in underlying lobbying positions of non-lobbyists, which are unknown. Thus, findings in this constellation do implicitly assume that no noise is created by ignoring the nested accounting preference (lobbying position).

We disagree that this is an appropriate way of examining the lobbying decision: First, research showed that lobbyists tend to oppose proposed standards, since the lobbying position taken allows for higher benefits of the lobbying activity (Schalow 1995). Hence, inferences drawn on the lobbying decision based on this sample are at least partly due to the underlying lobbying position and not due to determinants of lobbying decisions. Second, in the case of standard setting on a transnational level, such as the IASB, the establishment of an appropriate random sample to isolate the lobbying position is hardly achievable. The sample would need to be representative in terms of industry, size and geography of the IASB, which includes more than 100 countries worldwide down to a level of small caps. No suitable benchmark indices exist for this random sample, and even if available, the underlying lobbying position would still be unknown. Third, one could instead use matched samples in terms of size, geography and industry. This would at least roughly approximate the underlying lobbying position, which may average out across the sample. Yet, this approach, while partly applied in research as it allows to more easily generate samples, is even more inappropriate since it is biased on the level of the drivers of the lobbying decision itself. One should avoid matching samples based on the proxies that are supposed to explain the dependent variable (size, geography and industry).

All in all, we felt uncomfortable with following any of these two approaches. Thus, instead of running into above mentioned biases, we opted for an alternative two-folded approach, not applied in research so far: We examined the lobbying decision based on 1) a comparison of two sub-samples of ED lobbyists, the ones that submitted / not submitted CLs on the DP; and 2) a qualitative discussion of the mean values of proxies. The first approach is unbiased, since we avoided above sampling biases and were able to integrate the lobbying position (at least

for the ED period) into our analysis, which is of highest importance. Yet, admittedly, it narrows down the lobbying decision to the DP comment period and to firms that are positively biased to lobby, since they did in the ED period. However, we point out that this allows for identifying the drivers, which are likely to be of more extreme nature for 'total' non-lobbyists, assuming the same underlying lobbying position. With the second approach, we aim at depicting overall patterns and benchmarking them to the entirety of potential constituents.

Quantitative Analysis Approach

Now, we turn to the description of the quantitative approach, we chose for the first part. We opted again for a statistical regression model to analyze the rationale of preparers' lobbying decisions, for the same reasons as in Chapter 7.1.1. Yet, we supplemented this by qualitative discussions of the results and other observed patterns in mean proxy values.

By running this regression model, we obtained evidence on whether to verify or falsify the developed Hypotheses LD₁₋₅. The question is whether suggested drivers do explain why firms, which lobbied on the ED, decided or did not decide to also lobby in the DP period (coded as a binary DV: LOBBYING_DP). As in the previous chapter, this is also a qualitative categorical DV but limited to two outcomes (events). Accordingly, a binary logistic regression (or logit) model was applied. The model limits predicted values to the scale of our DV $\{0 \leq N \leq 1\}$.

As for the previously applied ordinal regression, the logit model is "a type of generalized linear model that extends the linear regression model by linking the range of real numbers to the 0-1 range" (IBM 2011). The model is expressed by below formula:

$$\text{logit}(\gamma_i) = \beta_1 x_1 + \dots + \beta_p x_i$$

where

γ_i	is the dependent variable
p	is the number of regression coefficients
$x_1 \dots x_p$	are the values of the independent variables for the i^{th} case
$b_1 \dots b_p$	are regression coefficients

Once again, we opted for multivariate, not bivariate models as we only expect the entirety of hypothesized independent variables [INDV] to jointly explain the complex lobbying decision.

Model Input and Data Collection

For this regression, we used the all-preparers Sample 1. Yet, the preparers were classified into two groups depending on whether they also submitted a CL on the DP or not, which is defined as our binary event (LOBBYING_DP) that we want to explain. In general, we aim at deriving a model suitable for the overall population of preparers, since no financial data disturbing comparability across the clusters is used. Results are also presented for the subsamples.

We derived our proxies based on Hypotheses LD₁₋₅. The regression model comprises eleven INDVs (INDV1-11), listed below in Table 36. The table shows the proxy name and abbreviation, the related measure and its interval, the DataStream item (if applicable), and the underlying hypothesis. Only for INDV1/11 we retrieved secondary data from DataStream (Thompson Reuters) for the fiscal year ending December 31, 2009.

Table 36: Proxy Overview Lobbying Decision					
Abrev.	Proxy Name	Measure	Interval	DataStream	Hypothesis
INDV1	LN_MARKET_CAP	= LN (Market Cap)	$\{0 \leq R\}$	09704	LD1
INDV2	RoU_SCORE	Coding Result	$\{-2 \leq Z \leq 2\}$		LD2
INDV3	KI_SCORE	Coding Result	$\{-11 \leq Z \leq 11\}$		LD2
INDV4	ASSO_RoU_SCORE	Coding Result	$\{-2 \leq Z \leq 2\}$		LD2
INDV5	ASSO_KI_SCORE	Coding Result	$\{-11 \leq Z \leq 11\}$		LD2
INDV6	PAST_LOB_DP	Event Count	$\{0 \leq N \leq 4\}$		LD3
INDV7	PAST_LOB_ED	Event Count	$\{0 \leq N \leq 11\}$		LD3
INDV8	PEER_PRES	Index	$\{0 \leq R\}$		LD4
INDV9	GEO_PRES	Index	$\{0 \leq R\}$		LD4
INDV10	ASSO_PRES	Index	$\{0 \leq R\}$		LD4
INDV11	BOARD_INDEPEND	Index	$\{0 \leq R \leq 1\}$	CGBS007S	LD5
CV1	INDU_RETAIL	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV2	INDU_ENERGY	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV3	INDU_TELECOM	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV4	INDU_HEALTH	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV5	INDU_REAL	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV6	INDU_FINANCIALS	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV7	INDU_OTHER	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV8	GEO_EUROPE	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV9	GEO_NAMERICA	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a
CV10	GEO_OTHER	Dummy Variable	$\{0 \leq N \leq 1\}$		n/a

Some measures are known from the previous regressions. Subsequently, we shortly cover each INDV. To capture preparers' health and power attributes, we used the natural logarithm of the firm's market capitalization, which supposedly best incorporates the attributes of size, growth and profitability, which are presumed to approximate Hypothesis LD₁. The LN was used since we do not assume a linear but logarithmic relationship due to the broad interval.

Next, INDV2-5 are all based on the coding results. While INDV2-3 are the former DVs, which we now nest into the lobbying decision as part of the underlying rationale, INDV4-5 were also already used beforehand, but we want to further explain how we generated the data. Both values represent the mean value of the coding results of the preparers' associated industry associations. Generally speaking, we consulted the respective internet representations of the industry associations to find out about represented industry sectors and associated members, i.e. via public member directories. After establishing the linkages, mean values were derived.

The data on the past lobbying behavior (INDV6/7) was also manually gathered. Based on the internet archive of the IASB, we cross-checked for any CL submissions on DPs / EDs of the preparers represented in our Sample 1 for the time period since 2005 (earliest available data). As a result, we analyzed submissions of 15 comment periods (4 DPs / 11 EDs), ranging from the ED on Consolidated Financial Statements (Oct 2005) to the ED on Revenue Recognition (Jun 2010), which was the last comment period before our ED submissions.

Further, we established three measures of peer pressure (INDV8-10) to grasp the notion of social pressure in a preparer's environment (LD₄). Therefore, we generated three indices: 1) peer pressure within the industry; 2) geographical pressure; and 3) pressure exerted by industry associations. All three indices were generated by summing up the number of lobbyists from a preparer's industry, geographical region and associated industry associations, and then standardizing the measure through a division by the mean points over the sample.

Last, INDV11 is the board independence index retrieved from DataStream to approximate the strength of corporate governance (Koh 2011). Since the measure was only available for about 70% of the sample, we assumed an average value for the preparer's where no value existed, in order to not significantly reduce the sample size due to INDV11.

Besides, we again included dummy variables to control for industry (CV1-7) and geography (CV8-10), following the same procedures as explained before in Chapter 7.1.1.

Regression Model Construction and Regression Proceedings

Based on these variables, we defined our regression model [M3] to explain LOBBYING_DP. All variables from the above table were included in the regression. No separation for DP and ED was needed this time, as the sample was based on the split of the ED sub-sample. Again, one CV of the industry and geography clusters was excluded at a time ('Dummy Variable Trap'). Due to correlation issues, GEO_EUROPE was exchanged for GEO_OTHER.

With regards to the regression procedures, we again applied the same elimination process starting with highly correlated variables (GEO_EUROPE and INDU_FINANCIALS), based on the Pearson-Correlation-Matrix. Then, insignificant CVs were excluded one by one until the defined threshold of significance >0.300 was reached. This is justified by the fact that the number of variables can inflate results, and thus, also reduces the goodness of fit (pseudo R^2 s). All hypothesized INDVs were kept in the model to allow for consistent presentation. After the establishment of the overall model, we run separate regressions for each subsample (1a-c).

Statistical Tests

Commonly applied statistical tests were once more conducted. For the overall model fit, the Hosmer-Lemeshow statistic was considered, to approve that the model's adequately fits the data (IBM 2011). In addition, we scatter plotted Cook distances compared to the predicted probabilities to control for noise in the model.

Validity and Reliability of Method and Data

In addition to the comments made in Chapter 7.1.1, there are reliability concerns with regards to data extraction in relation to the 'self-generated' INDV4/5 as the determination of related industry associations had to be based on sometimes subjective judgment, if no other public information was retrievable. Thus, findings on INDV4/5 need to be treated with caution. The same applies for INDV 10, which is based on the same underlying classification. Data on INDV6-9 is perceived to be highly reliable as the data gathering was free of friction as well as the data retrieved from DataStream and our coding results.

Our decision to apply a model that diverts from other studies, to avoid reliability issues of sampling and findings, inevitably involves limited comparability to other studies. Yet, as reasoned before, we perceive our approach to be of higher validity than previous studies.

Regression Results and Inferences

As beforehand, we opted for Nagelkerke's R^2 as the coefficient of determination. Using the same thresholds (≥ 0.3 and ≥ 0.5), we will reject, partly support or accept our overall model. Single proxies based on Hypotheses LD₁₋₅ are judged upon according the following scheme of significance (sign. ≤ 0.010 = *** / sign. ≤ 0.050 = ** / sign. ≤ 0.100 = *), while considering the Beta for the direction and Exp(Beta) for the magnitude of the coefficient.

7.2.2 Descriptive Statistics

Starting with the descriptive statistics, Table 37 presents the input to Model M3. The mean values and standard deviations of the DV and INDVs are shown for the total sample, and the two distinct groups (representing the two outcome categories of our model).

Table 37: Descriptive Statistics Lobbying Decision (Sample 1 - ED)							
Variables		Total ED Sample (N=244)		LOBBYING_DP = 0 (N=185)		LOBBYING_DP = 1 (N=59)	
Name	Abrev.	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
LOBBYING_DP	DV	0,24	0,43	0,00	0,00	1,00	0,00
LN_MARKET_CAP	INDV1	15,27	3,01	14,82	3,23	16,71	1,47
RoU_SCORE	INDV2	-0,77	1,23	-0,77	1,23	-0,78	1,26
KI_SCORE	INDV3	-3,79	3,23	-3,78	2,96	-3,83	3,99
ASSO_RoU_SCORE	INDV4	-0,53	0,93	-0,52	0,91	-0,56	0,99
ASSO_KI_SCORE	INDV5	-1,78	3,22	-1,60	3,06	-2,36	3,64
PAST_LOB_DP	INDV6	0,13	0,52	0,00	0,00	0,53	0,95
PAST_LOB_ED	INDV7	0,64	1,23	0,37	0,67	1,47	2,00
PEER_PRES	INDV8	1,04	0,52	1,03	0,51	1,08	0,54
GEO_PRES	INDV9	1,14	1,21	1,09	1,17	1,31	1,34
ASSO_PRES	INDV10	1,01	0,24	1,00	0,25	1,06	0,17
BOARD_INDEPEND	INDV11	0,65	0,22	0,65	0,20	0,64	0,26

The descriptive statistics indicate that the lobbying subsample (DV equal to 1), has some distinct characteristics. First, LN_MARKET_CAP is on average significantly larger. Second, the ASSO_KI_SCORE is more negative (~150%). Third, one can observe that the means for the past lobbying substantially increase. For the past lobbying on the DP, the group of non-lobbyists on the DP, showed no single previous lobbying activity. Last, we observed slightly higher means for the three measures of external peer pressure, most significantly for the GEO_PRES. With regards to the other INDVs, nearly no fluctuations were spotted.

7.2.3 Analysis Results

Next, Table 38 shows the regression results of our binary logistic regression Model M3 for the dependent variable LOBBYING_DP, regressing the characteristics of ED lobbyists.

Table 38: Parameter Estimates Regression Outcome (M3)						
Variables			Total ED Sample (N=244)			
Name	Abrev.	Expect.	B	Exp(B)	Wald-Test	Sign.
LN_MARKETCAP	INDV1	+	0,316**	1,372	6,341	0,012
RoU_SCORE	INDV2	-	-0,030	0,971	0,027	0,869
KI_SCORE	INDV3	-	0,011	1,011	0,024	0,877
PAST_LOB_DP	INDV4	+	21,076***	a)	a)	0,000
PAST_LOB_ED	INDV5	+	0,823***	2,277	13,729	0,000
ASSO_RoU_SCORE	INDV6	-	0,789	2,201	4,674	0,031
ASSO_KI_SCORE	INDV7	-	-0,212**	0,809	5,187	0,023
PEER_PRES	INDV8	+	-0,126	0,882	0,102	0,749
ASSO_PRES	INDV9	+	0,196	1,217	1,517	0,218
GEO_PRES	INDV10	+	0,391	1,478	0,132	0,717
BOARD_INDEPEND	INDV11	+	-0,858	0,424	1,066	0,302
INDU_RETAIL	CV1	n/a	-0,995	0,370	1,568	0,211
INDU_OTHER	CV7	n/a	-1,063*	0,346	3,074	0,080

a) due to "too high" explanatory power as no std. deviation exists for the outcome DV=0, the Wald Test and Exp(B) values are not computable. See also descriptive statistics.

The constructed model to explain preparers' lobbying decision in the DP period for the sample of the firms lobbying on the ED draft shows a high goodness of fit. Nagelkerke's R^2 took a value of $R^2=0.546$. Commonly applied statistical tests, approved the model's fit. The Hosmer-Lemeshow statistic's null hypothesis was clearly rejected (0.694). The Omnibus Tests of Model Coefficients was approved at a 0%-level, signaling a well fitting model. Based on the generated predictions, the model classified 85.2% of the 244 companies in the correct outcome category, with 96.2% accuracy for DP non-lobbyists and 50.8% for DP lobbyists, respectively.

Looking at the INDVs that contributed to the model's fit; four proxies were highly significant and take the direction as expected. Importantly, one has to mind that one cannot take the B-values as an easy to interpret magnitude of the change in units. The B-value is important to cross-check for the direction of the coefficient, while the $\text{Exp}(B)$ value indicates the change in the odds-ratio of the categorical outcome for a one-unit change (IBM 2011). INDV4/5, the two past lobbying ratios were found to be highly significant at a 0%-level. Surprisingly, for all firms with prior lobbying activities on IASB DPs since 2005 the categorical outcome took the value 1, as shown in the descriptive statistics. Next to the past lobbying history, the LN_MARKET_CAP was approved at a 5%-level (sig. 0.012), positively related to the probability of being a DP lobbyists. In addition, the ASSO_KI_SCORE was as well significant at a 5%-level (sig. 0.023), being negatively associated. The same holds for the ASSO_RoU_SCORE, yet the direction indicates the opposite direction, which is contradicting our expectation. All in all, the findings are consistent with the descriptive statistics presented beforehand.

The regression results disapproved the RoU_SCORE and KI_SCORE as proxies of the underlying, nested lobbying position. Furthermore, the parameters show that the peer pressure measures are all insignificant, except the ASSO_PRES indicating slight associations with the DV. Also, the proxy BOARD_INDEPEND could not be supported. With regards to the CVs, no geography was relevant. Yet, from the industry clusters, INDU_RETAIL and INDU_OTHERS showed significance higher than our CV elimination threshold of 0.300. Both having a negative sign, and thus, showing that members of those categories were less likely to lobby on the DP. I.e. this is in line with our observation that only 3 out of 35 preparers from the INDU_RETAIL cluster lobbied beforehand on the discussion paper, clearly less than the mean value of 25% of the sample.

Next, we run M3 for each 'contractual group' separately, meaning for lessees, lessors and financial services. For lessees, the model showed a Nagelkerke's R^2 value of 0.729, for lessors of lower 0.462 and for financial services of 1.000. The latter value results from the fact that all 12 firms from this sample that lobbied in both periods, formerly lobbied on other DPs and thus could be predicted by the proxy PAST_LOB_DP, which in the end served as 100% sure classification determinant. A fact that was not obvious when retrieving the data from all the available IASB due process comment periods; but it allows for an interesting insight.

7.2.4 Discussion and Conclusion

Following the presentation of the quantitative results, we now discuss the observed results and potential inferences we can draw for the underlying rationale of preparers lobbying decision. Judging upon the level we conducted the analysis at, one can conclude that the lobbying decision of preparers whether to actively lobby or not already in the first stage of the lease accounting standard was largely determined by two factors: First and most importantly,

the past lobbying behavior (INDV6/7), and second, the attributes of a firm approximated by the market capitalization. Both results are not surprising. But while the latter was nearly unanimously supported in previous literature, little evidence was so far found on the past lobbying behavior. While Elbannan and McKinley (2006) supposed its potential importance for the lobbying decision, only Georgiou and Roberts (2004) so far delivered empirical support for this association. In the case of lease accounting, we can definitely conclude that past lobbying seems to be of major importance. Not only for the DP-ED lobbying decision that we tested and approved, but also in a broader context. Out of the 244 ED lobbyists, 97 firms previously lobbied on IASB standard setting. The mean value of past lobbying events is 0.74 lobbying activities. The observations clearly indicate frequent lobbying patterns. Reasons are most likely as discussed in the literature review, the facts that repetitively lobbying preparers experienced past lobbying success, have specifically dedicated lobbying resources, accept the legitimacy of the IASB and value the due processes importance highly. This evidence emphatically supports our assumed association in Hypothesis LD₃ based on both the regression and statistical means.

Coming back to the second factor, the market capitalization, which was also clearly supported by our regression results, we also observed that the average market capitalization of our ED sample is EUR 22.5 bn. Thus, it obviously indicated that very large multinational companies more frequently decide to lobby, especially in the context if international standard setting. This proxy can be seen as an indicator for a variety of characteristics, such as the perceived influence on the Boards' (power), higher relative benefits compared to peers, and scale effects of lobbying, access to accounting expertise and related resources. As a result, those firms were more likely to be subject to 'free-riders', which then further accelerated this association. Also, larger, especially listed firms were less affected by adverse informational effects. Hence, it is difficult to name the most important driver in this interplay of self-enforcing effects, since no specific alternative proxies exist to more specifically capture the different underlying drivers. Yet, power, resources and relative benefits are supposed to be dominating. Concluding, we saw strong support for the assumed association in Hypothesis LD₁.

INDV2-3, which approximated the underlying lobbying position, could not be approved in our regression model. This indicates that the negativity towards the standard changes obviously did not explain whether a firm lobbied in both stages. However, the mean values of the overall sample clearly show a tendency that preparers tend to lobby, when they oppose the proposed standard. This bias is mainly explainable by the perceived need to lobby and the expected benefits from choosing to actively participate in the due process. Yet, since this impression is solely based on the observation of mean values, we remained indifferent for LD₂, though the descriptive statistics clearly indicated the on average negative attitude of lobbying preparers.

Finally, we did not find support for Hypotheses LD₄₋₅. First, regression results did not deliver evidence; second, it was not feasible to benchmark those values against non-lobbyists.

Overall, Model M3 showed a high goodness of fit in explaining what drove ED lobbyists also to decide to previously lobby on the DP. The two main identified drivers are preparers' attributes of power and healthiness, and past lobbying experience (DP & ED). This was also confirmed by the mean values for the overall sample of lobbyists on lessee accounting. While INDV2-3 were not found decisive in the regression, the mean values of lobbyists' lobbying positions indicated that preparers with negative positions on the proposal are more likely to decide to lobby.

7.3 Conclusion on Lobbying Rationale

Tables 39 and 40 summarize the results of our empirical analysis of the lobbying rationale, according to the findings and corresponding discussions outlined in the previous sub-chapters for both the lobbying position and lobbying decision. As the outcome of hypotheses testing can either be rejection or no rejection (IBM 2011), we concisely present our results.

Table 39: Results Hypotheses Testing (Lobbying Position)			
Hypothesis		Lobbying Position RoU Model (a)	Lobbying Position Key Issues (b)
LP ₁	Adverse Financial Statement Effects	No association	Association found for DP; partial association for ED
LP ₂	Standard Compliance and Proprietary Costs	No association	Association found for DP; partial association for ED
LP ₃	Debt Covenant Constraints	No association	No association
LP ₄	Position towards Lessee Accounting Model	n/a	Association found
LP ₅	Past Lobbying Behavior	No association; null hypothesis not rejected	No association; null hypothesis not rejected
LP ₆	Alignment with Industry Associations	Partial association found	Partial association found
LP ₇	Industry Membership	Partial association found	Partial association found
LP ₈	Business Model Threat	Qualitative support	Qualitative support

Table 40: Results Hypotheses Testing (Lobbying Decision)		
Hypothesis		Lobbying Decision
LD ₁	Market Capitalization	Association found
LD ₂	Underlying Lobbying Position	No association found, but mean values indicate negative attitudes
LD ₃	Past Lobbying Behavior	Association found
LD ₄	Peer Pressure	No association found
LD ₅	Corporate Governance	No association found

For six (parts of) hypotheses, we did not find statistical evidence. In three cases, statistical associations were highly significant. Further, for LP₁₋₂ evidence was only found for one period. For the remaining hypotheses the supposed association was not significantly supported, yet partial support found. Those indifferent cases require further empirical investigation.

A few final remarks are dedicated to the linkage of the lobbying position and lobbying decision. Hierarchically seen, the lobbying position underlies the decision to lobby. Hence, the empirical results of the lobbying position could potentially be dominated by the drivers of the lobbying decision. For example, the power and healthiness attributes, and the past lobbying experience are supposed to lead to a self-selection of the lobbyists. This could potentially have led to a situation where our empirical analysis applied is biased in explaining the variations of the lobbying position, since lobbyists' financial proxies (INDV1-4) are 'self-selected'. Especially with regards to the past lobbying experience, we expect this to be the case for our analysis.

To put the lobbying rationale in a nutshell, we found only limited evidence that anticipated economic consequences drove lessees' lobbying position. This contradicts prior research and may partly be explained by self-selection of lobbyists based on the lobbying decision. Industry characteristics partly affected the position taken (retail & telecom). For other than economic proxies, other preparers' rationale did not differ from lessees. Preparers' decision to lobby was mainly triggered by attributes of power and healthiness, and past lobbying experience. Also, we saw indications that opposing preparers more likely decide to lobby. Social factors seem to be of low importance (industry associations; peer pressure; corporate governance).

8. Lobbying Impact

With the literature review we introduced the idea of lobbying impact on accounting standard setting, discussing different theories behind the possibility, for constituent groups, to influence the outcome of the IASB/FASB accounting standards. In this chapter, we aim at answering the Hypotheses LI₁₋₃, established in Chapter 5. Therefore, we need to examine the degree of correlation between the lobbying activity/position of preparers identified beforehand and the due process dynamics observed in the project on lease accounting throughout the different versions. We identified the potential rationale behind the preparers' participation in the due process in the previous chapter, but here we seek to understand whether the lobbying activity of preparers on lease accounting is successful or not, namely to which extent submissions have impacted the Boards' re-deliberations during 2010 and 2011. As no content analysis has been performed on other constituents but preparers and industry associations, we will qualitatively integrate other interest groups during our discussion, in order to triangulate the observed outcome among preparers, the Boards and other constituents. This chapter is essential to ensure the holistic perspective at corporate lobbying on accounting standards, which we defined as one of the targeted advancements compared to previous literature.

First, we will again introduce the methodology applied to test whether there is any relation sign of lobbying success, obvious from the positions of preparers and the Boards over time. Next, we will re-introduce the due process dynamics (from DP to ED, and from ED to RED), primary presented to the discussion in Chapter 3. Foremost, we then present our empirical results on the lobbying impact of preparers, before discussing the analysis results, also in the light of other constituents' submissions, with regards to preparers lobbying impact.

8.1 Methodology

Unlike the previous chapter, we re-focus from corporate decision-making, and aim at relating the observed due process dynamics, i.e. the Boards' re-deliberations, to the analyzed lobbying positions of preparers as submitted to the Boards, with respect to the KIs of the RoU Model. So far, we described the proposed lessee accounting model and its changes, referred to as due process dynamics, in the different published versions over time (DP, ED and RED). Then, we identified related KIs of RoU Model and analyzed submitted CLs using content analysis to derive preparers' and industry associations' lobbying positions, also explicitly on the identified KIs. Here, we now relate the coded position to the due process dynamics. Therefore, the components of the KI_SCORE, which we used as one of the dependent variables before, will now be tested as an independent variable to explain the Boards' re-deliberations on the KIs (dependent variable). This comparison enables us to observe whether the Boards conducted changes in accordance with preparers' lobbying positions, speaking to analyze whether lobbying was successful. Hence, we will be able to discuss and answer our Hypotheses LI₁₋₃:

LI₁: *Preparers are not likely to dominate the overall outcome of the due process on leases.*

LI₂: *Preparers are likely to significantly impact the outcome of the due process on leases with respect to certain, non-technical Key Issues to which they paid particular attention.*

LI₃: *Preparers are likely to impact the due process outcome in a marginal, step-by-step approach, i.e. by shifting attention across Key Issues from DP to ED.*

Methodologically speaking, when discussing the due process dynamics, we need to relate the Boards' re-deliberations over-time to the coding structure applied on the KIs beforehand. For

the content analysis, we established a simple coding system to analyze preparers' position on each KI (opposition: -1, support: +1, neutral/no position presented: 0). Accordingly, we interpret opposing viewpoints (-1) as a request to the Boards to change their position in the specific KI, and vice versa. We thus code the Boards' re-deliberations on the same scale to derive the dependent variable we want to explain. The undertaken modifications during the two stages of the due process are coded from the Boards' perspective as presented in the DP and ED. If the Boards' remained with their position, we coded this non-change with '+1'. Consistently, re-deliberations towards the opposite direction by smoothing the RoU Model's design were coded with '-1', just like firms' opposition. This will allow us to conduct some simple statistical analyses on the degree of association as well as it allows for illustrative visualizations and easily comprehensible qualitative discussion.

8.2 Due Process Dynamics

Next, we attach to Chapter 3.4 and present the observed due process dynamics in detail.

8.2.1 Respondents' Opposition

From the CLs the evidence of opposition to the single KIs was overwhelming. Many respondents claimed that the current lease accounting discipline was not broken, and an appropriate solution to lease criticism would be a proper enhancement of disclosures (statement found 43 times in the DP and 106 times in the ED). The majority of preparers unwillingly conceded that the RoU Model would address lease criticism, did not support it fully, but rather than stubbornly holding on to the old discipline they acknowledged the unavoidable change from the current lease accounting to the new proposed standard. As a consequence, preparers focused more on lobbying for changes in single KIs in order to smooth the primary effects and associated negative consequences, rather than spending time, resources and effort to avoid the application of the RoU Model.

Several recurrent patterns have been found while analyzing the content of CLs. Preparers and industry organizations claimed that the new lessee accounting, as proposed in the DP and in the ED, would cause distortion of financial reports and provoke serious negative economic effects as consequence (e.g. banks should increase their prudential capital¹⁸), besides creating income volatility. Respondents contended that the new rules are too complex for users (and for managers) to understand, inserting too much uncertainty and subjective estimates on financial statements. Heavy concerns on the compliance burden were also very common; lessors were also strongly against the twofold lessor method of the ED. Some industries tried to make the case for scope exclusion of their own sector (primarily the real estate companies and the shipping industry). Some others highlighted the potential devastating effects on their business model. Another important concern of preparers is the transition effective date, which firms tried to push ahead in order to delay any adverse effect and to adjust their systems in the meantime (a later effective date was requested by 176 constituents in their ED CL).

64 entities answering to the DP and 485 respondents submitting their CL to the ED mentioned that the costs of the new leasing standard outweigh the benefits of applying it, as "the administrative burden arising from implementing the model outweighs the benefits for [...]"

¹⁸ "As far as banks are also significant lessees (leasing of the premises of their branch networks for instance) the expected level of their prudential capital will depend on the classification and prudential qualification of RoU assets" (DP CL169, Societe Generale).

large volumes of leases in different jurisdictions and with different terms. It would imply costly change to management reporting" (ED CL174 Klepierre, p.14).

Summing up, companies took a strong opposing lobbying position both to the DP and to the ED. Presumably, not all concerns of respondents remained unheard: in fact, during the whole due process, the Boards have amended rather significantly the proposed RoU Model. Before testing any influence preparers had on the ED and RED, we analyze the Boards' amendments.

8.2.2 Re-Deliberations

By now, it is clear that new proposed model of the lessee accounting has not remained stable over time, but it has incurred many and significant changes from DP to ED and from ED to the latest available RED. Such modifications constitute the result of monthly Board meetings and the corresponding re-deliberations of the IASB/FASB Board members.

Table 41 presents a concise overview of the changes occurred from the DP to the ED and from the ED to the RED, which will be all explained in detail below.

Table 41: Overview of Main Due Process Dynamics			
Standard Issues (KI in bold)	KI No.	Changes from DP to ED	Changes from ED to RED*
Lessee Accounting Model	RoU	RoU Model: Newly introduced another <u>choice for the discount rate</u> (rate at which lessor charges)	RoU Model: <u>No change</u>
Standard Scope - Exclusions/Inclusions - Non-core Leases - Short-term Leases	KI 1 KI 2	- New clarification: Exclusion of intangibles, biological assets, and non-regenerative assets - Non-core leases: Decided to include <u>within scope</u> - Short-term leases: Decided to include <u>within scope</u> with <u>simplified approach</u>	- New clarification: Inclusion of <u>inventory</u> that is associated with a leased asset - Non-core leases: No change - Short-term leases: Newly excluded from scope; now <u>only voluntary capitalization</u>
Lease Payment Components - Purchase Options - Contingent Rentals - Other	KI 3 KI 4	- Purchase options: <u>Newly excluded</u> - Contingent rentals: Limited to contingent rentals based on a rate or index - Expected <u>term option penalties</u> are now included	- Purchase options: <u>Again included</u> but now only if significant economic incentive to exercise - Contingent rentals: Newly permitted to use the index or rate at <u>commencement date</u> (simplified)
Lease Term	KI 5	Lease term: No change	Lease term: Newly requires a <u>significant economic incentive</u> to exercise to include renewal options
Reassessment - Lease Components - Lease Term	KI 6	Reassessment: Newly limited to reassessments of lease asset and liability <u>only if events indicate significant change in carrying value</u>	Reassessment: Change only for <u>contingent rentals</u> based on a rate or index, which again need to be reassessed <u>at each reporting date</u>
Subsequent Measurement - Lease Asset - Lease Liability	KI 7	Subsequent measurement: - Lease asset: Specifies possibility of <u>impairments</u> and exception if IAS 40 applies (fair value option) - Lease liability: No change	Subsequent measurement: - Lease asset: No change - Lease liability: No change
Presentation - Balance Sheet - Income Statement - Cash Flow Statement	KI 8 KI 9 KI 10	- BS: Newly requires separation of liabilities also - IS: Newly requires <u>separation of lease amortization & interest</u> , either in IS or disclosures - CF: Newly requires classification of lease payments under <u>financing activities</u>	- BS: Newly allows choice to separate lease assets and liabilities, <u>either in BS or disclosures</u> - IS: No change - CF: No change
Disclosures	KI 11	Disclosures: Newly <u>specifies required notes</u> , i.e. quantitative and qualitative information to identify / explain lease amounts and impact on future CFs	Disclosures: Newly <u>limits required disclosures</u> substantially, i.e. options, disaggregation, contingent rentals, estimates and judgments
Transition - Operating Leases - Finance Leases	KI 12	Transition: Newly specifies for - OL: <u>Retrospective application</u> - FL: <u>Adjustment of carrying values</u> (RoU Model)	Transition: Limits requirements (in discussion) for - OL: <u>Simplified Retrospective application</u> - FL: <u>No adjustment</u> of carrying values

*RED: We refer to the expected RED draft on lessee accounting incl. re-deliberations as of Nov 2011 based on the recent staff draft (IASB 2011c), which is expected to remain unchanged with regards to the lessee accounting model with the exception of KI 12 (transition).

The due dynamics concisely described above are the result of the examination of the different versions of the RoU Model; yet, in this chapter we shift our attention not on the models *per se* but on the changes between the different versions, integrating our analysis by a) listening to

the public recordings of the Boards' meetings and the monthly summary podcasts and b) by reading both the meetings' observer notes and agenda papers monthly prepared by the IASB/FASB Staff. This analysis has given us a closer and clearer picture on the due process' discussions and the rationale that prevailed when decisions on changing the KIs of the RoU Model were taken. Hence, in this section we describe the KI changes and the motives behind.

The Right-of-Use Model

As discussed in the DP, the RoU Model is applied to all leases, ultimately removing the separation between operating and finance leases. During the due process, it never occurred that the Boards questioned the core of the new standard, i.e. the recognition of all leases.

From the DP to the ED the Boards introduce the possibility to discount lease payments not only using the lessee's incremental borrowing rate, but also the rate at which the lessor charges the lessee. This decision is primarily explained in the Basis for Conclusion of the ED (IASB 2010): Theoretically, the two discount rates should be aligned, and the choice of one or another should not have any material impact on the discounting process. The introduction of the choice between the two discount rates is a matter of reduction in the complexity to determine the suitable discount rate depending on the circumstances (IASB 2010, BC66-69). Many preparers and industry associations argued against using solely the lessee's incremental borrowing rate: although in many circumstances, primarily when the lessor has a large residual interest in the leased asset, the rate inherent in the lease becomes complex to determine, it is also acknowledged that "requiring the lessee to use the incremental borrowing rate [...] may not necessarily be a simplification for preparers. [...] Determining this rate may be an extremely costly exercise for lessees, as they would need to estimate [...] a rate that appropriately reflects the level of security provided by the leased item. The degree of security could also differ amongst lease contracts and there is no single incremental borrowing rate that applies to all leases" (DP CL 29 Leaseurope, p.25f).

Scope

Compared to the DP, the ED clarifies the scope of the new lease accounting standard by stating that both non-core asset leases and short-term leases are included within the scope of the new standard. We should be careful in interpreting this due dynamic, though: although the Boards formulated the KI question in a positive direction (asking constituents whether they were supporting the exclusion of non-core and short-term leases), they did not support this issues in their preliminary views, limiting themselves to preliminarily present the issue but without stating their clear preference.

In the ED, the Boards contended that non-core assets may give rise to material leases; in addition to that, in no other standard the Boards differentiate between core and non-core assets, reckoned as an arbitrary separation. On this issues, preparers had rather divergent opinions: some saw them as a way to avoid the capitalization of leases adducing materiality issues; some, on the other hand, opposed to the non-core exclusion because it would be challenging to develop a clear definition of a non-core asset and to prove it consistently in to auditors (DP CL66 Exxon Mobil Corporation, p.4).

While non-core leases completely disappear from the ED version of lease accounting, short-term leases remain. If under the RoU Model the classification between operating and finance

leases disappears so as to faithfully represent the economics of the lease contract, the DP possibly introduces a new separation. The ED distinguishes short-term leases (with maximum lease term, including renewal options of twelve months or less) from other leases. A special treatment is reserved to short-term leases. The distinction between short-term (12 months or less) and long-term (more than 1 year) is already present in existing IFRSs (BC41) and thus justifies the choice of the 1-year threshold. For short-term leases, preparers have the possibility of recognizing undiscounted lease payments (simplified application). The Boards claimed opting for this simplified solution in order to mitigate concerns about the costs for accounting for short-term leases (BC44). Indeed, the majority of firms supported the exclusion of short-term leases leveraging on materiality and “the significant costs and effort companies would undergo to provide such lease information to users” (DP CL 10 Swire Pacific, p.4).

We observed due dynamics also from the ED to the RED. As consequence of the re-deliberations on lessor accounting, on their 19 September 2011 meeting, the Boards tentatively decided not to provide scope exclusion for assets that are often treated as inventory (e.g. operating materials and supplies). Yet, the main change regarding the scope involves short-term leases.

In their meeting on March 15th and on June 15th, the Boards tentatively decided that, for short-term leases, a lessee need not to recognize lease assets and liabilities. For those leases, the lessee should recognize lease payments in profit or loss on a straight-line basis over the lease term (it must be noted that preparers may also elect to apply the recognition and measurement requirements of all other lease contracts). The Boards decided that disclosures of the rental expenses both in the current period and in future periods are sufficient. The Boards called this decision “a practical expedient” (IASB Podcast Summary, June 2011), arguing that such a decision stemmed from the desire to address respondents’ concerns for the materiality of short-term leases. Hence, in shifting short-term leases from on-BS to off-BS, Boards’ members claimed to have “relieved companies from costly doing all the calculations to determine whether such leases are material or not” (IASB Podcast Summary, June 2011), assuming that, if a lease contract lasts for less than 12 months, then it is likely not material.

Lease Payment Components

As introduced in Chapter 3, the DP requires all options, contingent rentals and residual value guarantees to be recognized because of the Boards’ view that the obligation arising from such elements is not unconditional and thus, meets the definition of a liability, whose recognition determines a substantial grossing up of both the asset and the respective liability (primary financial statement effects).

Compared with the DP, in the ED the Boards add the “term option penalties” component and exclude the purchase option component [KI3] from the lease components, arguing that with the purchase of the asset the contract does not constitute a lease anymore; The ED excludes contingent rentals based on usage and/or on the lessee’s performance [KI4]. The Boards clarify that the lease payments should include contingent rentals, as they are part of the rights received (e.g. a lease could specify zero fixed lease payments and high contingent rentals) and as to avoid understating the RoU asset and corresponding liability – thereby preventing lessees’ structuring transactions. However, the Boards admit that it might be difficult to

estimate contingent rentals dependent on lessee's actions and performance, thus compromising the reliability of the amount recognized. As a consequence, lease payments should reflect only contingent rentals that can be measured reliably, i.e. depending on an index or a rate. This change seems to be perfectly in line with the strong opposition of respondents to the recognition of contingent rental payments: "A liability arises from past transactions or events; a decision by management to purchase goods or services in the future does not give rise to a present obligation" (DP CL102 TransCanada, p.11).

As for the ED, we observe for the RED changes in the lease payments. The Boards, at their 14 March 2011 meeting, decided to include again the exercise price of a purchase option as component of the lease payments. Yet, the requirement holds only if the lessee has a significant economic incentive to exercise the purchase option: Purchase options are "special" renewal options, resulting in a concrete extension of the lease forever. The evident support of preparers to the exclusion of purchase options, in re-introducing them in the computation of lease payments, the Boards aligned their decision consistently with their decision on renewal options – if a significant economic incentive to exercise the option exists, then preparers shall consider the purchase option as part of the lease payment.

Lease Term

No changes occur from the DP to the ED, except for the strong adverse lobbying position of companies. Nonetheless, we observe a due dynamic in the Boards' position during the 16 February 2011 meeting, in which the Boards tentatively decided that when assessing the lease term, preparers should consider any options to extend or terminate the lease (renewal options), but only when there is a significant economic incentive to exercise them. The decision was intended to address the many criticism of preparers that "optional periods are just that, optional, and they do not represent a liability at the BS date" (IASB, Podcast Summary 2011). The Boards thus decided, effectively, to go back to contractual lease term, but to amend it taking into account for leases structured in such a way that there is a strong economic incentive for the continuation of the lease. For the IASB/FASB, for such leases the real contractual period is the contractual period including renewal periods.

Reassessment of Lease Components and Lease Term

While in the DP reassessment of the lease payments and of the lease term is required at each reporting date, in the ED it is required only when changes in facts or circumstances indicate a significant change in carrying values. BC132 and BC133 explain that the Boards did not change the reassessment requirement as they see it conveying relevant information on current market conditions throughout the lease term; yet, to address cost concerns of respondents, the Boards decreased the frequency of reassessment for both components (lease payments and lease term). No change occurred between the ED and the RED, with the Boards holding their position despite the heavy lobbying aimed at decreasing even further the frequency of reassessment: "We believe that it would be onerous to require a periodic reassessment of changes [...] we recommend that reassessments be performed only upon exercise, modification or cancellation of a renewal term" (CL99 Deutsche Telekom AG, p.18f).

Subsequent Measurement

The DP and the ED versions do not differ if not only for the introduction of the impairment and

the fair value option. The transition between the ED and the RED has been more problematic. The expected RED position has been the result of several, divergent decisions of the Boards during Spring 2011. In their March and April meetings the Boards started to re-consider lessee accounting: The Boards acknowledged concerns of respondents that some leases are effectively hidden financing contracts, while some other leases are more similar to executory contracts. Moreover, several respondents have pointed out that "Replacing rent expense of operating leases with amortization and imputed interest expense [...] and the [...] decision to straight line amortize the leased asset distorts the BS values and creates a front-ended cost pattern that increases in severity the longer the lease term" (ED CL14 Leasing 101, pp.5-8). If the economic rationale for "operating" leases is different from finance leases, then the amortized cost-basis approach of the RoU Model is not only causing the FLE mentioned in Chapter 4, but it is also not faithfully representing the rental expense of an operating lease. The Boards thus decided on two different lease IS methods: the proposed amortization of the RoU asset for finance leases, and a straight-line expensing for "operating" leases. The Boards considered this decision as "very tentative and still to be connected with lessor accounting" (April Podcast Summary, IASB/FASB).

Yet, in a U-turn on straight-line lease expenses, the Boards reversed their decision on their meetings in May 2011. The Boards argued that such a double lessee accounting would make the RoU Model even more complicated, eventually penalizing preparers. This decision was said to be based on the outreach activities carried out during April, but mainly on the view of national standard setters, which were all strongly against the double lessee accounting on ISs, because it is conceptually not justifiable.

Presentation

While on the DP the Boards expressed only the Boards' preliminary views, in the ED we find the detailed presentation guideline with the overall goal to provide more relevant information to users. Preparers are thus required to present the RoU assets with PPE, but distinct from the owned assets, to provide better information on the productive capacity of the business. By the same token, separation is required also for lease liabilities so as to provide more useful information to users (BC145), while lease CFs are reclassified as financing in the CFS.

During our analysis of CLs, many preparers have shown a strong opposition to the separate presentation of all elements. An example is the CL of J Sainsbury plc, stating that "We do not agree with the presentation proposed for the performance obligation approach as it does not address the underlying difficulty in applying this approach [...] We do not agree that for lessees the amortization of the right-to-use asset and interest expense should be disclosed separately [...] as they are not distinct from other types of amortization and interest at that level. The information should be presented in the notes to the accounts. [...] [Leasing is] not solely motivated by the financing requirements. Hence to include all lease CFs as financing would mislead the reader of the accounts as to the underlying operating nature of an entity" (CL 195, J Sainsbury plc, p.12f).

For the RED, the Boards tentatively decided, during their July meetings, that preparers do not need to separate all leasing-related items in the financial statements, as long as they are fully disclosed in the footnotes – thus providing users with necessary information on lease agreements. Only the combination of interest and amortization expense in the IS is forbidden.

Lease Disclosures

Another change occurred from the ED to the RED is the substantial decrease in disclosure requirements. Overall, this is due to the Boards' opinion that the quantity of disclosures proposed in the ED was overwhelming to preparers, while also producing a duplication of information (IASB, IASB/FASB Meeting, 21 July 2011). The dominant argument in the meeting reflects preparers' concerns on KI11: "We are convinced that the narratives required by IFRS are in general far too extensive. Compared to the attention given to them by the users [...] and hence the potential decision relevance, the costs to be incurred generating and providing the required narrative information are far too high. [...] The cost benefit relation regarding narratives is definitely unfavorable" (ED CL203 Linde Group, p.15f).

Transition Requirements

Finally, the last due dynamic from the ED (where transition requirements were first published) to the RED regards KI12. The transition issue has been heavily discussed in the Q3 and Q4 of 2011. During the October re-deliberations, the Boards tentatively decided to consistently diminish the transition requirements in order to ease the potential burden of initially applying the final standard. In our content analysis we encounter this argument many times: "We fundamentally object to the application of the new lease accounting standard to all currently existing lease contracts without any "grandfathering". This causes excessive costs of conversion for the companies concerned and could lead to distortions [...] Generally it must be considered that the new standard necessitates an extremely complex adaptation of IT systems for both lessees and lessors. Enough time should be granted to the companies for this purpose" (CL204 Bundesverband Deutscher Leasing-Unternehmen, p.21f).

8.2.3 Due Process Interaction

Table 42 summarizes once again the KIs present both in the DP and in the ED, with the specification based on whether the Boards have changed their initial position (-1) or not (+1).

Table 42: Overview of Identified KIs and Main KI Changes					
KI No.	Key Issue (KI)	DP	Change from DP to ED	ED	Change from ED to RED
RoU	Lessee Accounting Model: Right-of-Use Model	x		x	
KI 1	Standard Scope: Non-core Leases	x	Yes		
KI 2	Standard Scope: Short-term Leases	x	Yes	x	Yes
KI 3	Lease Payment Components: Purchase Options	x	Yes	x	Yes
KI 4	Lease Payment Components: Contingent Rentals	x	Yes	x	No
KI 5	Lease Term	x	No	x	Yes
KI 6	Reassessment of Components and Lease Term	x	Yes	x	No
KI 7	Subsequent Measurement	x	No	x	No
KI 8	Presentation: Balance Sheet	x	No	x	Yes
KI 9	Presentation: Income Statement			x	No
KI 10	Presentation: Cash Flow Statement			x	No
KI 11	Disclosures			x	Yes
KI 12	Transition			x	Yes

The description of the due process dynamics shows a clear pattern of significant changes occurred over time while comparing the different versions of the lessee standard. While the concept of the RoU Model has never been called into question by the Boards, the KIs have undergone significant changes, many of which smoothed adverse primary effects of the RoU Model. At first sight, it appears that the Boards changed the preliminary DP addressing preparers' concerns expressed in CLs. From above description of changes, we may hence

suppose that the Boards' positions are, at least to a certain extent, related to firms' positions. Yet, it still remains questionable whether the re-deliberations were influenced by lobbying activity or not. Referring back to theories on preparers' lobbying impact on standard settings (Chapter 2.2), we now examine if our hypotheses (Chapter 5.2) hold true.

8.3 Analysis of Lobbying Impact

Identifying whether the due process dynamics are caused by preparers' lobbying activities is a complex and subtle analysis: First, studies on preparers' lobbying impact on the IASB/FASB are not conclusive and do not constitute a unique theory. Second, as the focus of our thesis was solely on preparers and their industry associations, we lack information about the preferences of other constituent groups which were found influential in previous studies, i.e. accounting firms, national standard setters and users (Kwok & Sharp 2006), and academia (McLeay et al. 2000). Third, we operate under the assumption that CL lobbying positions are representative of other non-public lobbying activities (Georgiou 2004). Despite the availability of recordings of the Boards' meetings, agenda papers and observer notes, we acknowledge that our analysis is limited to the "the visible inputs and visible output" (Cortese & Irvine 2010, p.88).

Minding these limitations, we try to observe whether the positions taken by the Boards during their re-deliberations and ultimately resulting in the ED and RED are aligned with preparers' lobbying positions. A feasible method to test such an alignment would be multi-dimensional scaling, as used by Brown (1981), who described in a spatial representation the preferences expressed by respondents and evaluated through an ALSCAL algorithm the degree of the FASB alignment. Yet, such an analysis is precluded due to our sample size¹⁹.

In the next steps, we use the same coding of preparers' and industry organizations' positions towards the identified KIs both for the DP and ED as identified in Chapter 6. Preparers' opposition (-1) to single KIs can be interpreted here as a request to the Boards to change their positions towards a specific RoU component. The -1 coding of each single KI, both for the DP and for the ED, can be matched with the outcome identified in the previous section when dynamics have been discussed (-1 whenever the KI was changed). In this context, we exclude the 0 coding (no answers/neutrality): Although one may argue that they represent firms not lobbying for the change of a specific KI (and thus should be included in the +1 direction – no change requested), the IASB/FASB Staff summaries and all the Boards meetings focus only respondents either supporting or requiring a change in the KIs, disregarding neutral firms²⁰.

As the due process dynamics (changes) were examined by us (see Table 42), we now determine whether respondents' lobbying positions are aligned with the changes or not, using the same approach presented by Kwok and Sharp (2006). To test the lobbying impact of preparers on the Boards' decisions, we thus perform a binomial test of the preferences of lessees, industry associations, lessors and financial services (dichotomous variable -1/+1 for the pressure to change / not to change). The binomial test confirmed that lobbying positions of analyzed CLs are not distributed evenly, but there is a clear tendency to oppose to single KIs, as the number of responses coded with -1 is significantly greater than supporting answers (+1).

¹⁹ Brown (1981) considered positions of 27 firms only. In our statistical package the elaboration of MDS is limited to 100 firms.

²⁰ Within this analysis, disregarding the '0' coding would constitute an issue only if the majority of respondents does not answer to a specific KI, thus conveying the message that preparers consider such a KI secondary, or of limited interest. However, this is not the case for the sample chosen in relation to our identified KIs, as proven by the chi-square test performed on the sample data.

The method followed, however, simply tests whether there is an alignment (not dependency) between the positions expressed in the CLs and the Boards' positions over time. This methodology does not enable us to consider to which extent the wishes of preparers have been granted: for the latter issue, we will integrate the test with a descriptive analysis. Table 43 below summarizes the results of our analysis.

8.3.1 Results and Discussion

In this section, we discuss Hypotheses LI₁₋₂ through the results illustrated in Table 43. In the DP, out of 8 identified issues, 4 KI changes are aligned with preparers' (lessees') CLs; in the ED, 5 out of 11 KIs are aligned. This mixed result seems to confirm LI₁: as not all dynamics are consistent with preparers' positions, preparers seemingly do not dominate the due process.

Table 43: Preparers' Lobbying Impact: Alignment with IASB/FASB Positions										
KI#	DP -> ED: Alignment of the Boards' decision with...					ED -> RED: Alignment of the Boards' decision with...				
	Board decision	Lessees	Industry Assos	Lessors	Financial Services	Board decision	Lessees	Industry Assos	Lessors	Financial Services
KI1	Change	Yes	_*	_*	_*	-				
KI2	Change	_*	No	No	_*	Change	Yes	Yes	Yes	Yes
KI3	Change	Yes	Yes	Yes	_*	Change	No	No	No	No
KI4	Change	Yes	Yes	_*	_*	No change	No	No	No	No
KI5	No change	No	No	No	No	Change	Yes	Yes	Yes	Yes
KI6	Change	Yes	Yes	Yes	Yes	No change	No	No	No	No
KI7	No change	_*	_*	_*	_*	No change	No	No	No	No
KI8	No change	_*	_*	_*	_*	Change	Yes	Yes	_*	_*
KI9	-					No change	No	No	No	_*
KI10	-					No change	No	No	No	_*
KI11	-					Change	Yes	Yes	Yes	Yes
KI12	-					Change	Yes	Yes	Yes	Yes

* Alignment not conclusive due to the significance level of the binomial test higher than 10%.

Analyzing the results for the DP, we observe a clear alignment between preparers and the Boards on KI3, KI4 and KI6, while results are not conclusive for KI1, KI7 and KI8, due to the fact that even among themselves, preparers were divided on these issues. Despite the divergent opinions of preparers, the mode of coded responses for KI1, KI7 and KI8 is -1, for which we can state that by trend responses to KI1 are aligned with the subsequent Boards decision, while the reverse holds for KI7 and KI8. KI2 and KI5 lack alignment of preparers and the Boards. For KI2, although the Boards did not have preliminary views on the matters, the decision to include all leases (short-term) in the scope goes in the opposite direction held by respondents.

Concluding, some of the KIs were changed consistently with the direction lobbied for by preparers: the recognition of purchase options as part of the MLPs was withdrawn and of contingent rentals limited; the reassessment frequency of the lease term and components was significantly diminished. Although the Boards did not follow preparers' recommendations for all KIs, one should acknowledge that the ED lease accounting model is a moderated softened version of the DP lease model in relation to the KIs, if we exclude the scope of the standard. Thus, the dynamics observed from the DP to the ED confirm the validity of LI₁ and LI₂: Preparers did not dominate the due process on leases at the DP stage, but exercised significant influence on the Boards' decisions when the ED RoU Model was drafted.

As for the DP, we observe for the ED that the Boards consider the requests of preparers only to a certain extent, embracing some requests while maintaining their views on other KIs ("a give and take process", Kenny & Larson 1993, p.539). On the positive side, the Boards align with preparers in relevant, crucial KIs: the IASB/FASB exclude short-term leases from the scope (KI2), giving the concrete possibility for preparers to retain off-BS financing. Renewal options, unless a significant economic incentive is present for their exercise, are also excluded from the estimate of the lease term (KI5). The BS presentation (KI8) is loosened; the Boards also significantly alleviate preparers from the ED burden of disclosures and transition (KI11 and KI12). On the other hand, against the response of preparers, purchase options are included in the model again (KI2), even though requirements are more relaxed compared to the DP; the frequency of reassessment does not further diminish from the ED to the RED (KI6); IS and CF presentations remain unaltered. Once again, we perceive that the outcome of the RoU Model in the RED is the result of a 'balanced bargaining process' consistent with Hypothesis LI₁.

Yet, the changes from the ED to RED (particularly for KI2, KI5, KI11 and KI12) represent a tremendous relief for preparers: important cardinal points of the whole RoU Model have been addressed in the direction desired by preparers, and the new lease standard appears as a much softened version of the initial DP RoU Model. Hence, the results again support Hypothesis LI₂ for the ED. Considering our observations in relation to the discussion on arguments used by respondents (Chapter 6), our findings suggest that accounting-quality related arguments may also reflect hidden economic motives, rather than solely accounting quality concerns. All in all, minding that our results should also be interpolated with other constituents, Table 43 suggests that the Boards modified lessee accounting trying to reach a compromise among different interest groups, but accommodating at the same time the wishes of the strongest constituent group, preparers. Thus, findings support both LI₁ and LI₂.

Sub-sample Analysis

The different Sub-clusters (1a,b,c) within our sample do substantially not show differences with regards to the alignment with the Boards. This unique pattern for all clusters can have a twofold reason: first, although the intensity of the lobbying position differs from cluster to cluster (Chapter 6.3), they are aligned in the overall direction of the lobbying position towards the KIs; second, it appears that the Boards do not differentiate between preparers, although during their meetings Board members referred to certain industries to consider the feasibility and the effectiveness of the RoU on different business models. However, splitting the sample into industries does not deliver different results than the findings presented in Table 43.

From this constant pattern among sub-clusters (incl. industries), only financial services differ with regards to KI8-KI10 (presentation). They were equally in favor and against the presentation requirements, unlike other sub-clusters that clearly opposed these KIs. However, the frequency of supporting positions towards KI8-KI10 was not high enough to deliver test-wise, significant results proving the alignment with the Boards' decisions.

Development of Preparers' Lobbying Pressure

In LI₃, we hypothesized that preparers negotiate with the Boards step by step by focusing on certain KIs and once changed in their favor, they concentrate on different KIs in the following step (or again on the same KI if the Boards' decision was not aligned). According to Kwok and

Sharp (2006), we should thus observe a shift in the number of KI responses from DP to ED CLs. Table 44 illustrates how many respondents answered to each KI as a percentage of the sample. As from the DP to the ED the outcome of KI2, KI5, KI7 and KI8 has been unfavorable for

Table 44: Response Intensity (Total Sample)					
KI#	DP: % of Answers	ED: % of Answers	Actual Change	Expected Change	Aligned?
KI1	59.6%		-		
KI2	67.9%	64.0%	-3.9%	Neutral/Increase	No
KI3	64.1%	37.1%	-27.0%	Decrease	Yes
KI4	67.9%	81.3%	13.4%	Decrease	No
KI5	73.1%	84.5%	11.5%	Neutral/Increase	Yes
KI6	67.3%	74.9%	7.6%	Decrease	No
KI7	71.8%	74.9%	3.1%	Neutral/Increase	Yes
KI8	57.7%	44.5%	-13.2%	Neutral/Increase	No
KI9		44.8%	-		
KI10		44.0%	-		
KI11		59.2%	-		
KI12		66.9%	-		

preparers, we would expect either a persistent (or even increasing, if we assume peer pressure and pressure from industry associations) lobbying towards these KIs; the reverse should occur for KI3, KI4 and KI6, as those issues have already been changed in preparers' wishes. However, findings are not aligned with LI₃. Our hypothesis holds only for KI2 (purchase options), KI5 (lease term) and KI7 (subsequent measurement), without a definite pattern. While we

cannot confirm LI₃ from the table, we may infer that preparers might be likely to continue to lobby for a certain KI position regardless of their success. Minding that the Boards' decisions that were aligned with preparers did not address all their concerns on a specific KI, we may speculate that preparers continue to lobby to further weaken the specific KI and, eventually, to eliminate it; on the other hand, it might well be that preparers try to reinforce the favorable previous decision taken by the Boards, knowing that U-turn decisions are not impossible.

Conclusion

Overall, the results on the lobbying impact are as hypothesized in LI₁ and LI₂: Due process dynamics cannot entirely be explained by preparers' private interests, i.e. their CL positions. The discussion above gives credit to the view of a due process characterized by a Board trying to both defend and gain legitimacy "engaging in an implicit bargaining exchange to reach a compromise solution" (Hussein 1981, p.30). However, preparers have undoubtedly played a role in shaping the KIs from the DP to the RED by significantly impacting certain KIs over time. Moreover, we do not find any conclusive evidence for LI₃, solely indications.

8.3.2 Further Considerations

Our considerations are not only limited to the lobbying outcome of preparers' lobbying; consistent with the take-away of our literature review in Chapter 2.2, we can also judge upon the strategy and lobbying channels adopted by preparers in order to influence the outcome of the standard, while taking into account in our discussion also other constituents' influence.

Other Constituents and Deviations

Both the IASB and FASB are subject to lobbying influences, as they strive for legitimacy among constituents and for resources. Thus, it is natural to expect the Boards to change their views in order to adjust to the needs of interest groups. The participation of all constituent groups in the due process is crucial to maintain these adjustments balanced. The result of the interaction between the Boards and constituent groups is, as Kenny and Larson (1993) define it, a "give and take process", which leads to a final standard version comparably much more relaxed than

the initially proposed model. Hence, according to this theory, other constituent groups are may be the reason why we did not observe perfect alignment between preparers and the Boards' decision; hence, providing indications that other constituents influence the Boards.

Observing other constituents' participation in submitting CLs both to the DP and ED, findings do

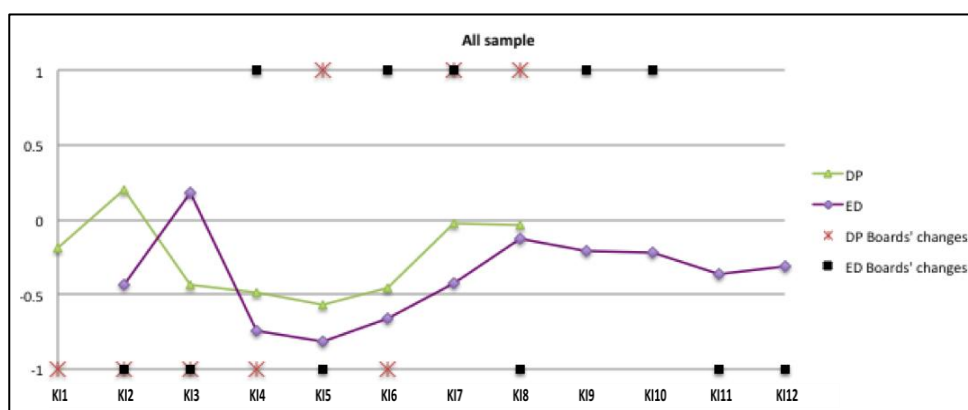
Table 45: Constituents' Due Process Participation				
Respondent Type	DP		ED	
	n.	%	n.	%
Preparers	135	45%	459	58%
Industry Organizations	57	19%	74	9%
Professional Organizations	44	15%	68	9%
National Standard Setters	18	6%	36	5%
Users / Others	17	6%	53	7%
Governmental Agencies	15	5%	24	3%
Accounting Firms	8	3%	41	5%
Academics	8	3%	31	4%
Total	302	100%	786	100

not deviate from what was observed in existing research: preparers and industry organizations represent the majority of. Together, they submitted approximately two thirds of all CLs. The relative participation of the different types did not significantly change from the DP to ED CLs. After preparers, professional organizations can also be deemed as rather active in expressing their position on the lease project. Previous research confirms that this participation pattern observed here, particularly highlighting the low representation of users and academics. For example, Tandy and Wilburn (1992) observed that, next to preparers, regulators, national standard setters and accounting firms steadily participate in due processes, while users are the least represented. However, Georgiou (2010) argues that user participation may not be as low as portrayed by the CL submissions: Actors may choose to lobby through indirect means, notably by appealing to user representative organizations. It is reasonable that, as observed by Kwok and Sharp (2006), these other constituent groups are likely to be responsible for the lack of observed alignment between preparers' positions and Boards' view: Randomly analyzing CLs from other interest groups than preparers, we noticed on average an increasing positive support both for the new RoU Model and for the single KIs, tendentially seen as a source of additional useful information on leases. Consequently, as other groups seem to have different preferences than preparers, we may infer that the changes in KIs not aligned with preparers' recommendation are aligned with other groups' wishes, particularly users. Not by chance, as a matter of fact, the Boards conducted extensive outreach activities throughout the whole due process to understand users' needs. Thus, it seems plausible that single KIs were not changed according to preparers' lobbying positions since contradicting preferences may have been expressed by other constituents.

Strategy

Observing the trends for the DP and ED, we notice that while the tendency for all preparers is to oppose to the Boards' views both on DP and ED, such an opposition is not equal to -1. If we

Figure 9:
Mean Trend
of Preparers'
Positions
and Boards'
Changes



refer to the outcome of preparers' lobbying impact analyzed above, we may again interpret Figures 9-11 as an "implicit bargaining exchange to reach a compromise solution" (Hussein 1981, p.30) in the due process. While analyzing the content of CLs, we several times observed this type of approach from preparers, i.e. preparers on average oppose to the Boards' proposal, even recognizing the validity of their view, and suggest or indicate the way to change specific KIs. Preparers' seemingly do not just present their positions but also try to suggest a compromise or a softened solution, thus trying to actively impact the standard outcome. This tendency of preparers to 'strategically' oppose to the Boards' positions is observable both at an aggregate level for the whole sample and at an individual sample level. Referring back to our Hypothesis LI₃ tested above, we see here a clearer pattern on how strategically preparers behave in order to influence the Boards. In Figures 9-11 we observe how preparers are all aligned in taking a position, focusing both on maintaining the achieved changes (e.g. KI3 as elimination of purchase option recognition) and on exercising higher pressure to the Boards for those KIs not yet changed according to preparers' directions. Looking at how preparers try to 'bargain for' their positions, we may question whether, behind the façade of accounting-quality arguments reported by the Boards and preparers, adjustments to the standard are more of a political rather than of technical (based on accounting-quality motives) nature – especially if one assumes that the DP preliminary views of the Boards are, ideally, of higher accounting quality. Considering both preparers' strategy to lobby on standard setting, and relating this to preparers' influence observed above in Chapter 8.3.1, we may support Kwok and Sharp (2005) statement that, also in our case of lessee accounting, with the outcome of the due process to date constituents reached a "strategic consensus [...] through a series of negotiations, compromises and considerations of both technical and political issues", as also expressed by us in Hypothesis LI₃.

Figure 10:
Mean Trend
of Preparers'
Positions and
Boards'
Changes (DP)

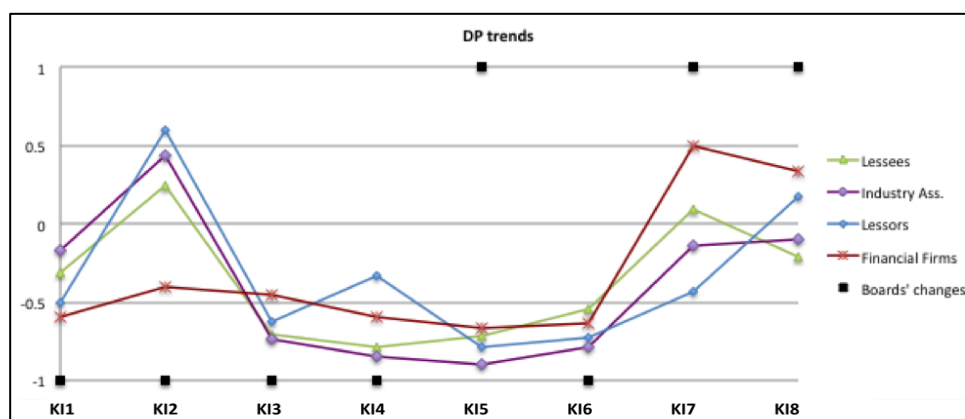
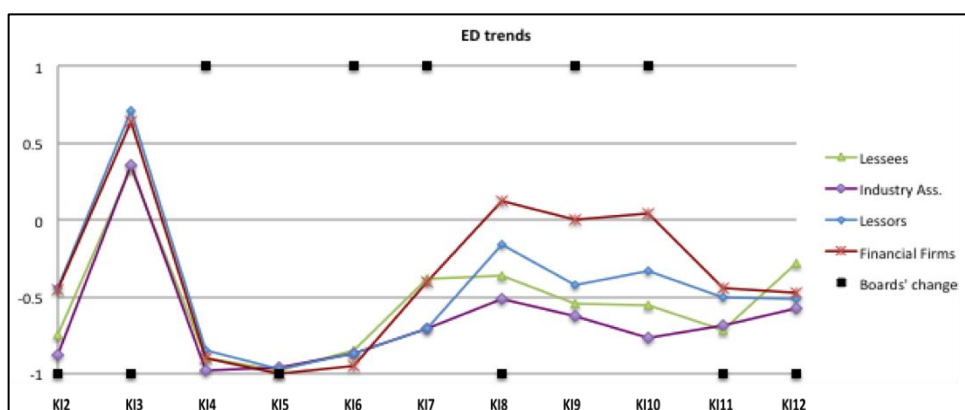


Figure 11:
Mean Trend
of Preparers'
Positions and
Boards'
Changes (ED)



Lobbying Channels

Limited by the nature of our analysis, it is not obvious whether preparers followed solely public lobbying paths or whether hidden influences played a role in the amendments to the lessee accounting models. During our analysis, we assume that positions in the CLs are generally representative of preparers' lobbying activities, which is based on prior research (Georgiou 2004); nonetheless, without knowing other constituent groups' positions, it is difficult to judge if there is a "disconnect between the visible input and visible output" (Cortese & Irvine 2010, p.88). However, the pattern observed above and the deviations of the Boards' decisions from preparers' positions suit the description of a bargaining process among constituents based on the publicly submitted CLs rather than the effect of hidden lobbying activities. The Boards did soften the requirements in the direction requested by preparers' CLs; the lack of alignment on certain KI changes is supposedly due to the Boards attempt to please all constituents. Next to this and that previous research suggested that CLs are representative of overall corporate lobbying activities, our empirical observations of the Boards' progress and other public articles written by preparers also support the impression that noise by hidden activities is unlikely.

8.4 Conclusion

This chapter allowed us to test whether preparers had an impact on the Boards' decisions to conduct observed re-deliberations during the stages (due process dynamics). Our results are consistent with Hypotheses LI₁₋₂; yet, we cannot conclusively support Hypothesis LI₃.

To start with, we find that the due process dynamics that occurred from the DP to the RED shaped a final RoU Model significantly different from the initial draft. The version that is about to be re-exposed is a more flexible, softened standard. By performing such re-deliberations, the Boards significantly aligned the lessee accounting model with preparers' preferences: although they did not fully solve single KIs, they were crucially modified to preparers' wishes. In this respect, we provide evidence that preparers are not only influencing the due process, but their power is also considerable in explaining the final outcome of the standard (LI₂).

Based on the results of this chapter, we infer that preparers lobbied to smooth effects of the RoU Model. In reaching this conclusion, we question whether such a compromise mainly results from a political process rather than accounting-quality based technical considerations. However, the influence of other constituents during the whole due process is essential to mind, when judging upon this in a concluding manner. It potentially explains the lack of full alignment between Boards' and preparers' positions. The Boards seemingly decided on the KIs in an attempt to reach a balanced compromise solution by adjusting the RoU Model, in order to maintain and defend its legitimacy towards all constituent groups. At the same time, it is the reason why we support LI₁ as in our case preparers did not dominate the due process.

Last, with LI₃, although in this case evidence is not conclusive, the strategic behavior of preparers, consistent with the bargaining process strategy as defined by Hussein (1981), may indicate that the outcome of the lease standard due process resembles a strategic consensus in which both technical considerations and political negotiations matter. This is especially obvious from preparers lobbying on specific KIs, while the overall RoU Model remained unchanged, supposedly in line with preparers' expectations of their perceived influence.

9. Concluding Thoughts

With this research paper, we contributed to an understanding of preparers' lobbying rationale, separated in lobbying position and lobbying decision, and preparers' lobbying impact on IASB standard setting. More specifically, we investigated what drove preparers to actively lobby on accounting standard setting and which impact they achieved on the outcome. To answer this, we opted – as proposed by Georgiou (2005) – for a holistic analysis along the causal chain of preparers' lobbying on IASB standard setting in the specific case of the IASB/FASB convergence project on lease accounting. The lease project, due to its far-reaching economic consequences, its complexity and high constituent participation, was an appropriate research object.

After reviewing existing literature on preparers' lobbying rationale and impact on accounting standards, we examined the proposed standard changes to lessee accounting and the related dynamics that occurred during the due process (from discussion paper to exposure draft). In particular, the analysis was focused on twelve identified Key Issues that constitute for the overall proposed 'Right-of-Use' Model. Next, we derived from research that capital markets' are supposedly (semi-) inefficient in digesting lease information. Building on this assumption, we identified primary adverse financial statement effects, which are expected to lead to negative economic consequences for lessees on debt and equity markets. This analysis and the literature review essentially set the foundation to develop hypotheses on the lobbying position (LP₁₋₈), lobbying decision (LD₁₋₅) and lobbying impact (LI₁₋₃) in the case of lease accounting.

Opting for the hypotheses testing approach, we decided to empirically evaluate the case of lease accounting based on a content analysis of preparers' comment letters. We improved the methodology of prior research by three advancements: 1) Holistic analysis, including the whole causal chain from the lobbying rationale over the observed activity to the impact; 2) Industry perspective, devoting more attention to industry membership and associations; and 3) No oversimplification of the lobbying position, by including a second level of analysis. With regards to the analysis of the lobbying rationale and impact, we opted for a hybrid approach of quantitative (regression) techniques, and qualitative evaluations and discussions.

In a crucial step, we analyzed the empirical material on preparers' **lobbying activity**, namely the comment letters submitted in response to the IASB/FASB Discussion Paper (Mar 2009) and Exposure Draft (Aug 2010), to derive preparers' coded lobbying position. First, we analyzed the firms' lobbying positions with regards to the newly proposed 'Right-of-Use' Model for lessee accounting. Second, we included the identified Key Issues to fully capture preparers' lobbying positions. The coding results indicated, as expected, that – on average – preparers opposed both the 'Right-of-Use' Model and the related Key Issues in both stages of the due process.

First of all, we tested whether preparers' (especially lessees') **lobbying position** was driven by economic consequences (adverse financial statement effects, compliance / proprietary costs, debt covenant constraints), their position towards the overall lessee accounting model, past lobbying experiences, alignment with industry associations, industry membership and lessors' threat on their business model. However, different from what we expected, empirical results on the due process on leases did not or only partially support the assumed associations. Most importantly, we found only limited evidence that anticipated economic consequences drove lessees' lobbying position. The partial evidence stemmed from the highly significant result of

the expected balance sheet effect to explain lessee's lobbying positions on the Key Issues on the Discussion Paper. Apart from this, the findings, which did not support the hypothesized economic consequences, contradict prior research. Thus, either preparers' positions are driven by other considerations, i.e. accounting quality, or the results may be partly explained by the self-selection of lobbyists based on the nested lobbying decision. In addition, analysis results showed that preparers' positions with respect to the overall 'Right-of-Use' Model was highly associated with the position taken on certain underlying Key Issues that were subject to debate. Industry characteristics partly affected the taken lobbying positions, especially for the retail and telecom sector. For non-financial proxies, results did not differ for other preparers.

Next, we tested whether the **lobbying decision** to submit a comment letter to the IASB/FASB was triggered by firm attributes of power and healthiness (defined as market capitalization), the nested lobbying position, past lobbying activities, peer pressure and strength of corporate governance system. Here, regression results indicated that preparers' decision to lobby was mainly triggered by attributes of power and healthiness, and past lobbying experience. Also, we saw indications that opposing preparers more likely decide to lobby. Social factors were seemingly of low importance (industry associations; peer pressure; corporate governance). For the lobbying decision, all industries and preparer subsamples showed similar patterns.

Last, we evaluated preparers' **lobbying impact** on the final outcome, namely on the expected Re-Exposure Draft on leases. The statistical results were consistent with previous research that preparers impact the outcome of the accounting due process on leases, yet not dominate it (Hussein 1981; Kwok & Sharp 2006). The Boards partially changed the initial proposal on lessee accounting to address preparers' concerns: Some Key Issues underwent significant changes, many of which had the effect of smoothing potential adverse financial statement effects of the standard change. At the same time, the outcome of the due process dynamics between the IASB/FASB and preparers can be described as a "balanced bargaining process" (Hussein 1981); we may interpret the outcome of the lease standard as a political process in which preparers lobby to smooth the adverse impact of accounting changes. With regards to the strategy that is followed by preparers to exercise influence, results showed indications that preparers follow a step-wise lobbying approach in the course of the due process stages; yet, the evidence was partly inconclusive. We observed that the outcome of the due process on leases is impacted by both technical considerations and political negotiations between the Boards and preparers.

Recommendations for Further Research

Last, the authors of this thesis want to direct recommendations to future research. Related to the delimitations of the scope of our analysis, follow-up studies could, first, also include lessor accounting, besides lessee accounting, in the analysis. As a result, more specific proxies could be included for lessors, capturing their lobbying rationale. Grasping the mirror side of lessee accounting would also allow for capturing preparers' overall impact on the Boards' decisions. Second, other constituent groups could be included within the scope of the analysis, by adding both a qualitative analysis of their lobbying rationale and a quantitative examination of their lobbying impact on the outcome. Thus, results on the lobbying impact could be better interpolated and inferences enhanced; especially since it enables to control for the alignment of lobbying positions among all constituent groups.

Methodology-wise, we also see potential advancements. First, the sample data could possibly be adjusted, mainly regarding lessors. Although data was extracted to the best extent possible, eliminations from the sample due to a lack of data availability were unavoidable. This adjustment to the initial sample may have caused selection bias, which supposedly may influence the generalizability of our findings and their interpretation. Second, the choice and specification of variables impacting the lobbying rationale have a significant influence on the final outcome. Especially for manually retrieved proxies, future research could try alternative ways of establishing those measures (peer pressures; industry associations). For the proxy of past lobbying experiences, a success rate could complement the number of submissions. Third, the validity of this study could further be enhanced through advanced qualitative approaches (Georgiou & Roberts 2004; Koh 2011). Also, surveys and interviews on accounting preferences would shed more light on the linkage of lobbying position and decision. Interviews of Board members could be used to evaluate the due process dynamics from yet another viewpoint.

In addition, we suggest conducting a follow up study that also includes the next comment period on the Re-Exposure Draft. Concluding, a study combining our holistic approach with our recommendations could then constitute a truly comprehensive study on the casual chain of preparers' lobbying rationale and impact on the ongoing process on lease accounting.

Apart from the due process on lease accounting, we strongly recommend studies to devote more specific attention to the two approved drivers of the lobbying decision: Attributes of power and healthiness, and past lobbying experience. It is of particular interest to examine in more detail what actually are the drivers aggregated by the proxies of market capitalization and past lobbying. This can especially be reached by further refining the applied proxies to capture the different, theoretically derived notions of the underlying rationale.

Besides, we recommend that future research papers continue to separate two levels of analysis, by separately coding and examining key issues that were identified to be of concern within the discussion. This procedure proved valuable as it allowed for depicting the lobbying rationale and the due process dynamics and impact in more detail.

Concluding Remark

In sum, we examined the holistic causal chain of preparers' lobbying on the lease accounting standard. Through a content analysis of solicited comment letters, we determined preparers' lobbying positions on the proposed lessee accounting, which were pre-dominantly opposed to the 'Right-of-Use' Model and the related Key Issues. Regarding the rationale of the lobbying position, results were not consistent with our initial expectations. Assumed factors, especially adverse economic consequences, seemingly did not drive preparers' lobbying position (to the extent) that literature suggests. Further, results indicated that firm attributes of power and healthiness, and past lobbying experience are crucial drivers of the lobbying decision. For the lobbying impact, we saw that although preparers did not dominate the due process, but their lobbying activities had significant influence on the outcome of the Re-Exposure Draft. We recommend that further research on this particular due process includes the third comment period, lessor accounting and other constituents. Studies on other standards should continue to analyze two levels of lobbying position and refine proxies on past lobbying and firm size.

References

- Ang, N. & Gallery, N. 2000, "The incentives of Australian public companies lobbying against proposed superannuation accounting", *Abacus*, vol. 36, no. 1, pp. 40.
- Angels, F.M., Soledad, M., Orgaz, N. 2011, *Impact assessment of recognition versus note disclosure in operating leases*, Working Paper, Spanish Department of Science and Technology.
- Armstrong, M. 1977, "The politics of establishing accounting standards", *Journal of Accountancy*, vol. 143, no. 2, pp. 76-79.
- Beattie, V., Edwards, K. & Goodacre, A. 1998, "The impact of constructive operating lease capitalisation on key accounting ratios", *Accounting & Business Research*, vol. 28, no. 4, pp. 233-254.
- Bennett, B.K. & Bradbury, M.E. 2003, "Capitalizing Non-cancelable Operating Leases", *Journal of International Financial Management & Accounting*, vol. 14, no. 2, pp. 101-114.
- Breton, G. & Taffler, R.J. 1995, "Creative Accounting and Investment Analyst Response", *Accounting & Business Research*, vol. 25, no. 98, pp. 81-92.
- Brown, P. 1981, "A Descriptive Analysis of Select Input Bases of the Financial Accounting Standards Board", *Journal of Accounting Research*, vol. 19, no. 1, pp. 232-246.
- Brown, L.D. & Feroz, E.H. 1992, "Does the Fasn Listen to Corporations?", *Journal of Business Finance & Accounting*, vol. 19, no. 5, pp. 715-731.
- Bryman, A. & Bell, E. 2011, *Business research methods*, 3. ed. edn, Oxford University Press, Oxford.
- Cheshire, J.D. & Feroz, E.H. 1989, "Allison's Models and the Fasn Statements No's 2, 5, 13, and 19", *Journal of Business Finance & Accounting*, vol. 16, no. 1, pp. 119-130.
- Christenson, C. 1983, "The Methodology of Positive Accounting", *Accounting Review*, vol. 58, no. 1, pp. 1.
- Chung, D.Y. 1999, "The informational effect of corporate lobbying against proposed accounting standards", *Review of Quantitative Finance and Accounting*, vol. 12, no. 3, pp. 243-269.
- Cortese, C. & Irvine, H. 2010, "Investigating international accounting standard setting: The black box of IFRS 6", *Research in Accounting Regulation*, vol. 22, no. 2, pp. 87-95.
- Deakin, E.B. 1989, "Rational Economic Behavior and Lobbying on Accounting Issues: Evidence from the Oil and Gas Industry", *Accounting Review*, vol. 64, no. 1, pp. 137.
- Dechow, P.M., Hutton, A.P. & Sloan, R.G. 1996, "Economic Consequences of Accounting for Stock-Based Compensation", *Journal of Accounting Research*, vol. 34, no. 3, pp. 1-20.

- Dhaliwal, D.S. 1982, "Some Economic Determinants of Management Lobbying for Alternative Methods of Accounting: Evidence from the Accounting for Interest Costs Issue", *Journal of Business Finance & Accounting*, vol. 9, no. 2, pp. 255-265.
- Downs, A. 1957, "An Economic Theory of Political Action in a Democracy", *Journal of Political Economy*, vol. 65, no. 2, pp. 135-150.
- Duke, J.C., Hsieh, S. & Su, Y. 2009, "Operating and synthetic leases: Exploiting financial benefits in the post-Enron era", *Advances in Accounting*, vol. 25, no. 1, pp. 28-39.
- Durocher, S. & Fortin, A. 2009, "Proposed Changes in Lease Accounting and Private Business Bankers' Credit Decisions", *Accounting Perspectives*, vol. 8, no. 1, pp. 9-42.
- Elbannan, M. & McKinley, W. 2006, "A theory of the corporate decision to resist FASB standards: An organization theory perspective", *Accounting, Organizations and Society*, vol. 31, no. 7, pp. 601-622.
- FASB 2011a, 2011/02/28-last update, *Rules of Procedures*. Available: <http://www.fasb.org/cs/BlobServer?blobcol=urldata&blobtable=MungoBlobs&blobkey=id&blobwhere=1175822153159&blobheader=application%2Fpdf> [2011, 11/20].
- Francis, J.R. 1987, "Lobbying against proposed accounting standards: The case of employers' pension accounting", *Journal of Accounting and Public Policy*, vol. 6, no. 1, pp. 35-57.
- Fülbier, R.U., Silva, J.L. & Pferdehirt, M.H. 2008, "Impact of Lease Capitalization on Financial Ratios of Listed German Companies", *Schmalenbach Business Review (SBR)*, vol. 60, no. 2, pp. 122-144.
- Geiger, M.A. 1989, "The New Audit Report: An Analysis of Exposure Draft Comments", *Auditing*, vol. 8, no. 2, pp. 40.
- Georgiou, G. 2010, "The IASB standard-setting process: Participation and perceptions of financial statement users", *British Accounting Review*, vol. 42, no. 2, pp. 103-118.
- Georgiou, G. 2005, "Investigating corporate management lobbying in the U.K. accounting standard-setting process: A multi-issue/multi-period approach", *Abacus*, vol. 41, no. 3, pp. 323-347.
- Georgiou, G. & Roberts, C.B. 2004, "Corporate lobbying in the UK: An analysis of attitudes towards the ASB's 1995 deferred taxation proposals", *British Accounting Review*, vol. 36, no. 4, pp. 441-453.
- Georgiou, G. 2004, "Corporate Lobbying on Accounting Standards: Methods, Timing and Perceived Effectiveness", *Abacus*, vol. 40, no. 2, pp. 219-237.
- Goodacre, A. 2003b, "Assessing the Potential Impact of Lease Accounting Reform: A Review of the Empirical Evidence", *Journal of Property Research*, vol. 20, no. 1, pp. 49-66.
- Gordon, M.J. 1964, "Postulates, Principles and Research in Accounting", *Accounting Review*, vol. 39, no. 2, pp. 251.

- Griffin, P.A. 1982, "Foreign Exchange Gains and Losses: Impact on Reported Earnings", *Abacus*, vol. 18, no. 1, pp. 50-69.
- Grossman, A.M. & Grossman, S.D. 2010, "Capitalizing Lease Payments", *CPA Journal*, vol. 80, no. 5, pp. 6-11.
- Gujarati, D.N. 2002, *Basic econometrics*, 4. ed. edn, , Boston : McGrawHill.
- Hill, N.T., Shelton, S.W. & Stevens, K.T. 2002, "Corporate Lobbying Behaviour on Accounting for Stock-Based Compensation: Venue and Format Choices", *Abacus*, vol. 38, no. 1, pp. 78-90.
- Holthausen, R.W. & Leftwich, R.W. 1983, "The Economic Consequences of Accounting Choice: Implications of Costly Contracting and Monitoring", *Journal of Accounting and Economics*, vol. 5, no. 2, pp. 77-117.
- Hope, T. & Gray, R. 1982, "Power and Policy Making: the Development of an R&D Standard", *Journal of Business Finance & Accounting*, vol. 9, no. 4, pp. 531-558.
- Horngren, C. 1973, "The Marketing of Accounting Standards", *Journal of Accountancy*, , no. 136, pp. 61-66.
- Hussein, M.E.A. 1981, "The Innovative Process in Financial Accounting Standards Setting", *Accounting, Organizations & Society*, vol. 6, no. 1, pp. 27-37.
- IASB 2011, May 2011-last update, *Who we are and what we do*. Available: <http://www.ifrs.org/NR/rdonlyres/F9EC8205-E883-4A53-9972-AD95BD28E0B5/0/WhoWeAreEnglishMay2011.pdf> [2011, 11/20].
- IASB 2010b, *How we consult - Encouraging broad participation in the development of the IFRSs*.
- IASB 2010a, *Due Process Handbook - International Accounting Standard Board (IASB)*, Updated December 2010
- IASB 2009, *International Accounting Standard 17 - Leases*.
- IASB, *IASB Framework for the Preparation and Presentation of Financial Statements*.
- IASB & FASB 2011c, *IASB Staff Paper - Effect of Board Redeliberations on Exposure Draft Leases (Nov2011)*
- IASB, & FASB 2010a, *Exposure Draft - Leases*.
- IASB & FASB 2009, *Discussion Paper - Leases, Preliminary Views*.
- IBM 2011, *SPSS Statistics*.
- Katselas, D., Birt, J. & Kang, X.H. 2011, "International Firm Lobbying and ED 8 Operating Segments", *Australian Accounting Review*, vol. 21, no. 2, pp. 154-166.
- Kelly, L. 1982, "Corporate Lobbying and Changes in Financing or Operating Activities in Reaction to FAS No.8", *Journal of Accounting & Public Policy*, vol. 1, no. 2, pp. 153-173.

- Kenny, S. & Larson, R. 1993, "Lobbying behaviour and the development of international accounting standards", *European Accounting Review*, vol. 2, no. 3, pp. 531-554.
- 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", *International Journal of Accounting*, vol. 46, no. 1, pp. 1-24.
- Kwok, W.C.C. & Sharp, D. 2005, "Power and international accounting standard setting: Evidence from segment reporting and intangible assets projects", *Accounting, Auditing and Accountability Journal*, vol. 18, no. 1, pp. 74-99.
- Langmead, J.M. & Soroosh, J. 2009, "International Financial Reporting Standards: The Road Ahead", *CPA Journal*, vol. 79, no. 3, pp. 16-24.
- Larson, R.K. 2007, "Constituent Participation and the IASB's International Financial Reporting Interpretations Committee", *Accounting in Europe*, vol. 4, no. 2, pp. 207-254.
- Larson, R.K. 1997, "Corporate Lobbying of the International Accounting Standards Committee", *Journal of International Financial Management & Accounting*, vol. 8, no. 3, pp. 175-203.
- Leone, M. 2010, "Taking the "Ease" Out of "Lease"?", *CFO*, vol. 26, no. 10, pp. 52-55.
- Lindahl, F.W. 1987, "Accounting Standards and Olson's Theory of Collective Action", *Journal of Accounting & Public Policy*, vol. 6, no. 1, pp. 59-72.
- Lowe, E.A., Puxty, A.G. & Laughlin, R.C. 1983, "Simple Theories for Complex Processes: Accounting Policy and the Market for Myopia", *Journal of Accounting & Public Policy*, vol. 2, no. 1, pp. 19-42.
- MacArthur, J.B. 1988a, "An Analysis of the Content of Corporate Submissions on Proposed Accounting Standards in the UK", *Accounting & Business Research*, vol. 18, no. 71, pp. 213-226.
- MacArthur, J.B. 1988b, "Some Implications of Auditor and Client Lobbying Activities: A Comparative Analysis", *Accounting & Business Research*, vol. 19, no. 73, pp. 56-64.
- McKee, A.J., Bell, T.B. & Boatsman, J.R. 1984, "Management Preferences Over Accounting Standards: A Replication and Additional Tests", *Accounting Review*, vol. 59, no. 4, pp. 647.
- McKee, J., Williams, P. & Frazier, K. 1991, "A case study of accounting firm lobbying: Advice or consent", *Critical Perspectives on Accounting*, vol. 2, no. 3, pp. 273-294.
- McLeay, S., Ordelheide, D. & Young, S. 2000, "Constituent lobbying and its impact on the development of financial reporting regulations: evidence from Germany", *Accounting, Organizations and Society*, vol. 25, no. 1, pp. 79-98.
- Ndubizu, G.A., Choi, Y.C. & Jain, R. 1993, "Corporate Lobbying Strategy and Pension Accounting Deliberations: An Empirical Analysis", *Journal of Accounting, Auditing & Finance*, vol. 8, no. 3, pp. 277-287.

- Nobes, C. 1991, "Cycles in UK Standard Setting", *Accounting & Business Research*, vol. 21, no. 83, pp. 265-274.
- Olson, M. (ed) 1971, *The Logic of Collective Action: Public Goods and the Theory of Groups*, 2nd edn, Harvard University Press, London.
- Pacecca, T. 1995, "An Analysis of Submissions to the Asrb on Release 411 'Foreign Currency Translation--Questionnaire'", *Accounting & Finance*, vol. 35, no. 2, pp. 97-118.
- PwC 2010, *Proposed lease accounting. Research of impact on companies*, PricewaterhouseCoopers.
- Rahman, A.R., Lay, W.N. & Tower, G.D. 1994, "Public Choice and Accounting Standard Setting in New Zealand: An Exploratory Study", *Abacus*, vol. 30, no. 1, pp. 98-117.
- Reason, T. 2005, "Hidden in Plain Sight", *CFO*, vol. 21, no. 11, pp. 59-61.
- Saemann, G. 1999, "An Examination of Comment Letters Filed in the U.S. Financial Accounting Standard-Setting Process by Institutional Interest Groups", *Abacus*, vol. 35, no. 1, pp. 1-28.
- Schalow, C.M. 1995, "Participation Choice: The Exposure Draft for Postretirement Benefits Other Than Pensions", *Accounting Horizons*, vol. 9, no. 1, pp. 27-41.
- Scott, J. 1990, *A Matter of Record*, Cambridge: Polity Press.
- SEC 2002,
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.
- Singh, A. 2011, "A restaurant case study of lease accounting impacts of proposed changes in lease accounting rules", *International Journal of Contemporary Hospitality Management*, vol. 23, no. 6, pp. 820-839.
- Solomons, D. 1983, "The Political Implications of Accounting and Accounting Standard Setting", *Accounting & Business Research*, vol. 13, no. 50, pp. 107-118.
- Stigler, G.J. 1971, "The Theory of Economic Regulation", *The Bell Journal of Economics and Management Science*, vol. 2, no. 1, pp. 3-21.
- Sutton, T.G. 1984, "Lobbying of accounting standard-setting bodies in the UK and the USA: A Downsian analysis* 1", *Accounting, Organizations and Society*, vol. 9, no. 1, pp. 81-95.
- Sutton, T.G. 1988, "The proposed introduction of current cost accounting in the U.K. Determinants of corporate preference", *Journal of Accounting and Economics*, vol. 10, no. 2, pp. 127-149.
- Tandy, P.R. & Wilburn, N.L. 1996, "The Academic Community's Participation in Standard Setting: Submission of Comment Letters on SFAS Nos. 1-117", *Accounting Horizons*, vol. 10, no. 3, pp. 92-111.

- Tandy, P.R. & Wilburn, N.L. 1992, "Constituent Participation in Standard-Setting: The FASB's First 100 Statements", *Accounting Horizons*, vol. 6, no. 2, pp. 47-58.
- Thomson Reuters *Datastream*, version 5.1.
- UBS Investment Research 2010, *Valuation & Accounting Briefing: All leases to move to the balance sheet*.
- Unerman, J. 2000, "Methodological issues: Reflections on quantification in corporate social reporting content analysis", *Accounting Auditing & Accountability Journal*, vol. 13, no. 5, pp. 667-680.
- Watts, R.L. & Zimmerman, J.L. 1990, "Positive accounting theory: a ten year perspective", *Accounting Review*, , pp. 131-156.
- Watts, R.L. & Zimmerman, J.L. 1979, "The Demand for and Supply of Accounting Theories: The Market for Excuses", , pp. 125-157.
- Watts, R.L. & Zimmerman, J.L. 1978, "Towards a Positive Theory of the Determination of Accounting Standards", *Accounting Review*, vol. 53, no. 1, pp. 112.
- Whittington, G. 1987, "Positive Accounting: A Review Article", *Accounting & Business Research*, vol. 17, no. 68, pp. 327-336.
- Wilkins, T. & Zimmer, I. 1983, "The Effects of Alternative Methods of Accounting for Leases -- An Experimental Study", *Abacus*, vol. 19, no. 1, pp. 64-75.
- Wilson, C. & Ahmed, K. 2002, *Journal of Accounting and Finance*, , no. 1, pp. 107-123.
- Yen, A.C., Hirst, D.E. & Hopkins, P.E. 2007, "A Content Analysis of the Comprehensive Income Exposure Draft Comment Letters", *Research in Accounting Regulation*, vol. 19, no. C, pp. 53-79.
- Zeff, S. 1974, "Comments on 'Accounting Principles - How They are Developed' " in *Institutional Issues in Public Accounting*, ed. R. Sterling, 1st edn, Scholars Book Co., , pp. 172-178.
- Zeff, S.A. 1978, "The Rise of "Economic Consequences"", *Journal of Accountancy*, vol. 146, no. 6, pp. 56-63.

Additional References

Comment letters to the Discussion Paper - Leases, CL 10 Swire Pacific, [Online]. Available: <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm> [2011, 10/02]

Comment letters to the Discussion Paper - Leases, CL29 – Leaseurope, [Online]. Available: <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm> [2011, 10/02]

Comment letters to the Discussion Paper - Leases, CL66 - Exxon Mobil Corporation, [Online]. Available: <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm> [2011, 10/02]

Comment letters to the Discussion Paper - Leases, CL102 TransCanada, [Online]. Available: <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm> [2011, 10/02]

Comment letters to the Discussion Paper - Leases, CL169, Societe Generale, [Online]. Available: <http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/DPMar09/Comment+Letters/Comment+Letters.htm> [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL14 Leasing 101, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL99 Deutsche Telekom AG, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL174 Klepierre, p.14, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL195 J Sainsbury plc, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL203 Linde Group, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Comment letters to the Exposure Draft, Leases, CL 204 Bundesverband Deutscher Leasing-Unternehmen, [Online]. Available: http://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=1850-100 [2011, 10/02]

Podcast summaries:

IASB, IASB meetings [audio playback], [Online]. Available:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Meeting+Audio+Playback/Meeting+Audio+Playback.htm> [2011, 11/15]

IASB, IASB February Meeting [audio playback], [Online]. Available:

http://media.iasb.org/IASBboardweek15_18022011.mp3 [2011, 11/15]

IASB, IASB March Meeting [audio playback], [Online]. Available:

<http://media.ifrs.org/boardmeeting180311.mp3> [2011, 11/15]

IASB, IASB April Meeting [audio playback], [Online]. Available:

http://media.ifrs.org/podcasts/BoardMeetingSummary12_150411.mp3 [2011, 11/20]

IASB, IASB May Meeting [audio playback], [Online]. Available:

<http://media.ifrs.org/podcasts/boardmeetingSummary200511.mp3> [2011, 11/20]

IASB, IASB June Meeting [audio playback], [Online]. Available:

http://media.ifrs.org/podcasts/07_10_lease_podcast_2.mp3 [2011, 11/20]

IASB, IASB June Meeting [audio playback], [Online]. Available:

<http://media.ifrs.org/podcasts/boardpodcast25072011.mp3> [2011, 11/20]

IASB, IASB July Meeting [audio playback], [Online]. Available:

<http://www.ifrs.org/Current+Projects/IASB+Projects/Leases/Podcast+series.htm> [2011, 11/22]

IASB, IASB September and October Meetings [audio playback], [Online]. Available:

<http://www.ifrs.org/Updates/Podcast+summaries/Podcast+summaries.htm> [2011, 11/29]

Appendix A – Lessee Accounting Paragraphs

The purpose of Appendix A is to give a structured overview of the relevant standard extracts from IAS 17 to DP to ED to RED, focusing on the identified key issues on leases.

RoU Model (Lessee Accounting Model)

IAS 17

§4 A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease. [...]

§8 A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

§13 Lease classification is made at the inception of the lease [...]

§20 (finance lease) At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

§33 (operating leases) Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

Discussion Paper

§3.17 [...] the boards tentatively concluded that the lessee's right to use a leased item for the lease term meets the definitions of an asset in the Framework and CON 6.

§3.21 [...] the boards tentatively concluded that the lessee's obligation to pay rentals meets the definitions of a liability in the Framework and CON 6.

§3.26 On the basis of the preceding analysis, the boards tentatively concluded that the existing lease accounting model is inconsistent with the asset and liability definitions in the Framework and CON 6. The boards tentatively decided to develop a new approach to accounting for leases that would result in the recognition of the assets and liabilities identified as arising in a lease contract. Rather than treating some lease contracts like a purchase of the leased item (finance leases) and others as executory contracts (operating leases), the new approach would treat all lease contracts as the acquisition of a right to use the leased item for the lease term. Thus, the lessee would recognise the following:

- (a) an asset representing its right to use the leased item for the lease term (the right-of-use asset)
- (b) a liability for its obligation to pay rentals.

§4.16 The boards tentatively decided to initially measure the lessee's obligation to pay rentals at the present value of the lease payments, discounted using the lessee's incremental borrowing rate.

§4.19 The boards discussed measuring the right-of-use asset initially at cost. In a lease contract, the cost of the right-of-use asset will generally equal the fair value of the obligation to pay rentals. As discussed above, in most situations the present value of the lease payments discounted using the lessee's incremental borrowing rate will be a reasonable approximation to the fair value of the obligation to pay rentals. The boards tentatively decided to require the obligation to pay rentals to be measured initially at the present value of the lease payments rather than at fair value. Consequently, in discussing a cost-based measurement for the right-of-use asset, the boards concluded that cost would equal the present value of the lease payments discounted using the lessee's incremental borrowing rate.

§3.33 Because of the problems identified in paragraph 3.32, the boards tentatively decided not to adopt a components approach to accounting for complex lease contracts. Instead, the boards tentatively decided that the lessee should recognise:

- (a) a single right-of-use asset that includes rights acquired under options

(b) a single obligation to pay rentals that includes obligations arising under contingent rental arrangements and residual value guarantees.

Exposure Draft

§10 At the date of commencement of a lease, a lessee shall recognise in the statement of financial position a right-of-use asset and a liability to make lease payments.

§11 A lessee shall recognise the following items in the statement of comprehensive income, except to the extent that another IFRS requires or permits its inclusion in the cost of an asset:

- (a) interest expense on the liability to make lease payments [...]
- (b) amortisation of the right-of-use asset [...]
- (c) revaluation gains and losses as required by IAS 38, when a right-of-use asset is revalued [...]
- (d) any changes in the liability to make lease payments resulting from reassessment of the expected amount of contingent rentals or expected payments under term option penalties and residual value guarantees relating to current or prior periods [...]
- (e) any impairment losses on a right-of-use asset [...]

§12 At the date of inception of the lease, a lessee shall measure: (a) the liability to make lease payments at the present value of the lease payments (see paragraphs 13–15), discounted using the lessee's incremental borrowing rate or, if it can be readily determined, the rate the lessor charges the lessee (see paragraph B11).

Re-exposure Draft (Staff Draft, November 2011)

§10 At the date of commencement of a lease, a lessee shall recognise in the statement of financial position a right-of-use asset and a liability to make lease payments.

§11 A lessee shall recognise the following items in the statement of comprehensive income, except to the extent that another IFRS requires or permits its inclusion in the cost of an asset:

- (a) interest expense on the liability to make lease payments [...]
- (b) amortisation of the right-of-use asset [...]
- (c) revaluation gains and losses as required by IAS 38, when a right-of-use asset is revalued [...]
- (d) any changes in the liability to make lease payments resulting from reassessment of the expected amount of contingent rentals or expected payments under term option penalties and residual value guarantees relating to current or prior periods [...]
- (e) any impairment losses on a right-of-use asset [...]

§12 At the date of inception of the lease, a lessee shall measure: (a) the liability to make lease payments at the present value of the lease payments (see paragraphs 13–15), discounted using the lessee's incremental borrowing rate or, if it can be readily determined, the rate the lessor charges the lessee (see paragraph B11).

Scope of the standard

IAS 17

§2 This Standard shall be applied in accounting for all leases other than:

- (a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources; and
- (b) licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights.

However, this Standard shall not be applied as the basis of measurement for:

- (a) property held by lessees that is accounted for as investment property (see IAS 40 Investment Property);
 - (b) investment property provided by lessors under operating leases (see IAS 40);
 - (c) biological assets held by lessees under finance leases (see IAS 41 Agriculture);
- or
- (d) biological assets provided by lessors under operating leases (see IAS 41).

§3 This Standard does not apply to agreements that are contracts for services that do not transfer the right to use assets from one contracting party to the other.

Discussion Paper

§2.9 The boards' preliminary view is that the scope of the proposed new standard should be based on the scope of the existing standards.

§2.14 Like other accounting standards, the proposed new lease accounting standard will not apply to immaterial items.

§2.15 Some constituents have suggested that the proposed new standard should provide scope exclusions for non-core asset leases and short-term leases. The following sections discuss those possible scope exclusions. The boards have not reached preliminary views on either of those issues.

Exposure Draft

§5 An entity shall apply this [draft] IFRS to all leases, including leases of right-of-use assets in a sublease, except:

- (a) leases of intangible assets (see IAS 38 Intangible Assets).
- (b) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources
- (c) leases of biological assets (see IAS 41 Agriculture).
- (d) leases between the date of inception and the date of commencement of a lease if they meet the definition of an onerous contract.

§6 An entity shall apply this [draft] IFRS to a contract that contains service components and lease components [...], except as follows:

- (a) A lessee shall apply Revenue from Contracts with Customers to a service component of a contract that contains service components and lease components if the service component is distinct and the lessee is able to do so [...]

§7 An entity shall apply this [draft] IFRS to investment property that it holds under a lease. [...]

§8 An entity shall not apply this [draft] IFRS to the following contracts, which represent a purchase or sale of an underlying asset:

- (a) a contract that results in an entity transferring control of the underlying asset and all but a trivial amount of the risks and benefits associated with the underlying asset to another entity [...]; and
- (b) a lease after the lessee has exercised a purchase option specified in the lease. A contract ceases to be a lease when such an option is exercised and becomes a purchase (by the lessee) or sale (by the lessor).

§9 Except as specified in paragraphs 30 and 46, an underlying asset in a lease is not within the scope of this [draft] IFRS.

§64 At the date of inception of a lease, a lessee that has a short-term lease may elect on a lease-by-lease basis to measure, both at initial measurement and subsequently, (a) the liability to make lease payments at the undiscounted amount of the lease payments and (b) the right-of-use asset at the undiscounted amount of lease payments plus initial direct costs. Such lessees shall recognise lease payments in profit or loss over the lease term.

Re-exposure Draft (Staff Draft, November 2011)

At their 19 September 2011 meeting the boards tentatively decided not to provide a scope exclusion from the leases standard for assets that are often treated as inventory, such as non-depreciating spare parts, operating materials, and supplies, and that are associated with the leasing of another underlying asset. The forthcoming revised exposure draft will provide an example illustrating the effect of this decision.

At their 13 June 2011 meeting the boards discussed the accounting for short-term leases by lessees. A short-term lease is defined as follows: a lease that, at the date of commencement of the lease, has a maximum possible term, including any options to renew, of 12 months or less. The boards tentatively

decided that, for short-term leases, a lessee need not recognise lease assets or lease liabilities. For those leases, the lessee should recognise lease payments in profit or loss on a straight-line basis over the lease term, unless another systematic and rational basis is more representative of the time pattern in which use is derived from the underlying asset. The boards also tentatively decided that a lessee may elect to apply the recognition and measurement requirements in the leases guidance to short-term leases. The boards expressed support for requiring disclosure of the rental expense recognised in the current period and a statement about the extent to which that expense is expected to be representative of rental expense in future periods. The boards will continue to discuss disclosures for short-term leases, as well as lessor accounting for short-term leases, at a future meeting.

Components of lease payments (Purchase options, Contingent Rentals)

IAS 17

§4. Minimum lease payments are the payments over the lease term that the lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

- (a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee [...]
- (b) However, if the lessee has an option to purchase the asset at a price that is expected to be sufficiently lower than fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, the minimum lease payments comprise the minimum payments payable over the lease term to the expected date of exercise of this purchase option and the payment required to exercise it. [...]

§25 [...] Contingent rents shall be charged as expenses in the periods in which they are incurred. [...]

Discussion Paper

§6.56 The boards noted that purchase options can be viewed as the ultimate renewal option. Providing a purchase option is no different from providing renewals that extend over the entire economic life of the leased item. Consequently, the boards tentatively concluded that the accounting requirements for purchase options should be the same as for options to extend or terminate the lease.

§7.20 The IASB thinks that measuring liabilities of uncertain amount using expected outcome techniques provides the most useful information to users. Consequently, it tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of contingent rentals payable.

§7.21 The FASB tentatively decided that a lessee should measure contingent rentals on the basis of the most likely rental payments. A lessee would determine the most likely amount by considering the range of possible outcomes [...]

§7.25 The boards think that requiring remeasurement will provide more relevant information to users. Consequently, they tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments.

§7.31 The FASB tentatively decided to require changes in the obligation to pay rentals arising from all changes in estimated contingent rental payments to be recognised in profit or loss.[...]

§7.32 [...] the IASB tentatively decided to require all changes in the obligation to pay rentals arising from changes in estimated contingent rental payments to be recognised as an adjustment to the carrying amount of the right-of-use asset. [...]

§7.46 The boards tentatively decided that the measurement of the lessee's obligation to pay rentals when it includes a residual value guarantee should be consistent with the measurement of the obligation to pay rentals when it includes an obligation to pay contingent rentals. They noted that measuring obligations under contingent rental arrangements and residual value guarantees in the same way would make any new standard easier for preparers to apply and users to understand. Consequently:

(a) the boards tentatively decided not to require the lessee to recognize the maximum amount payable under the residual value guarantee.

(b) the IASB tentatively decided that the measurement of the lessee's obligation to pay rentals should include a probability-weighted estimate of amounts payable under residual value guarantees.

(c) the FASB tentatively decided that a lessee should measure residual value guarantees on the basis of the most likely rental payment. A lessee would determine the most likely rental payment by considering the range of possible outcomes. However, this measure would not necessarily equal the probability-weighted sum of the possible outcomes.

§7.48 Consistently with their decisions on contingent rentals:

(a) the boards tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated payments under residual value guarantees. [...]

Exposure Draft

§14 [...] an estimate of contingent rentals payable. If the contingent rentals depend on an index or a rate, the lessee shall determine the expected lease payments using readily available forward rates or indices. [...]

§15 The exercise price of a purchase option included in a lease is not a lease payment and the purchase option is not included in determining the present value of lease payments payable.

§17 After the date of commencement of the lease, the lessee shall reassess the carrying amount of the liability to make lease payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period. [...]

§18 A lessee shall distinguish changes in contingent rentals and expected payments under term option penalties and residual value guarantees that relate to current or prior periods from those that relate to future periods. A lessee shall recognise changes in the expected amount of such payments:

(a) in profit or loss, to the extent that those changes relate to current or prior periods.

(b) as an adjustment to the right-of-use asset to the extent that those changes relate to future periods.

§19 A lessee shall not change the rate used to discount the lease payments except to reflect changes in reference interest rates when contingent rentals are based on those reference interest rates. When contingent rentals are based on reference interest rates, a lessee shall recognise any changes to the liability to make lease payments arising from changes in the discount rate in profit or loss.

Re-exposure Draft (Staff Draft, November 2011)

At their 14 March 2011 meeting the boards tentatively decided that lease payments should include the exercise price of a purchase option (including bargain purchase options) in the measurement of the lessee's liability to make lease payments and the lessor's right to receive lease payments, if the lessee has a significant economic incentive to exercise the purchase option.

At their 20 July 2011 meeting the boards discussed the measurement of lease payments that depend on an index or on a rate that is included in the lessee's liability to make lease payments and the lessor's right to receive lease payments and tentatively decided that:

(a) Lease payments that depend on an index or a rate should be measured initially using the index or rate that exists at the date of commencement of the lease.

(b) Lease payments that depend on an index or a rate should be reassessed using the index or rate that exists at the end of each reporting period.

(c) Lessees should reflect changes in the measurement of lease payments that depend on an index or a rate (a) in net income to the extent that those changes relate to the current reporting period and (b) as an adjustment to the right-of-use asset to the extent that those changes relate to future reporting periods.

Lease Term

IAS 17

§4 The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Discussion Paper

§6.36 The boards tentatively decided to require the lessee to determine the most likely lease term because it avoids many of the problems associated with the other approaches.

§6.41 The boards tentatively decided to provide guidance on the factors to consider when determining the lease term. Their preliminary view is that the guidance should specify that contractual, non-contractual and business factors are considered in determining the lease term. The lessee's intentions and past practice would not be considered.

§6.47 Because requiring reassessment of the lease term is likely to provide users of financial statements with more relevant information, the boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances.

Exposure Draft

§13 A lessee shall determine the lease term by estimating the probability of occurrence for each possible term, taking into account the effect of any options to extend or terminate the lease [...]

§B16 The lease term is defined as the longest possible term that is more likely than not to occur. An entity determines the lease term considering all explicit and implicit options included in the contract and given effect by the operation of statutory law.

§17 After the date of commencement of the lease, the lessee shall reassess the carrying amount of the liability to make lease payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period. When such indications exist, a lessee shall:

(a) reassess the length of the lease term in accordance with paragraph 13 and adjust the right-of-use asset to reflect any resulting change to the liability to make lease payments arising from changes to the lease term. [...]

Re-exposure Draft (Staff Draft, November 2011)

At their 16 February 2011 meeting, the boards tentatively decided that the lease term should be defined as 'the non cancellable period for which the lessee has contracted with the lessor to lease the underlying asset, together with any options to extend or terminate the lease when there is a significant economic incentive for an entity to exercise an option to extend the lease, or for an entity not to exercise an option to terminate the lease.

Subsequent measurement

IAS 17

§25 (finance leases) Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

§27 A finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

§30 (finance leases) To determine whether a leased asset has become impaired, an entity applies IAS 36 Impairment of Assets.

Discussion Paper

§5.13 The boards tentatively decided that in a lease contract the lessee has bought a right-of-use asset and is funding that acquisition with an obligation to pay rentals. Consistently with that decision, the rest of this chapter discusses non-linked subsequent measurement of the right-of-use asset and the obligation to pay rentals

§5.19 [...] Consequently, they tentatively decided to adopt an amortised cost-based approach to subsequent measurement of the obligation to pay rentals.

§5.24 The FASB tentatively decided not to require reassessment of the lessee's incremental borrowing rate.

§5.25 The IASB tentatively decided that the lessee's obligation to pay rentals should be remeasured to reflect changes in the lessee's incremental borrowing rate.

§5.29 The boards noted that the catch-up approach is consistent with how some financial liabilities are measured in accordance with both IFRSs and US GAAP. Consequently, they tentatively decided to adopt the catch-up approach. Thus, the carrying amount of the obligation to pay rentals would be adjusted to reflect the revised estimated cash flows.

§5.30 However, as noted in paragraph 5.25 the IASB tentatively decided that the lessee's incremental borrowing rate should be updated to reflect current conditions. Thus, a revised incremental borrowing rate, rather than the original incremental borrowing rate, would be used to calculate the catch-up adjustment. The FASB tentatively decided to continue using the original incremental borrowing rate.

§5.42 The boards think that the disadvantages of requiring subsequent measurement of the right-of-use asset at fair value outweigh the potential benefits to users of financial statements. Consequently, the boards tentatively decided that a lessee should subsequently measure the right-of-use asset on an amortized cost basis.

Exposure Draft

§16 After the date of commencement of the lease, a lessee shall measure:

(a) the liability to make lease payments at amortised cost using the effective interest method, subject to the requirements in paragraphs 17–19.

(b) the right-of-use asset at amortised cost unless paragraphs 21–24 apply.

§17 After the date of commencement of the lease, the lessee shall reassess the carrying amount of the liability to make lease payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period.

§20 If a lessee measures the right-of-use asset at amortised cost, it shall amortise the asset on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset if shorter.

§21 A lessee may measure a right-of-use asset at its fair value at the date of revaluation less any amortisation and impairment losses arising after the date of revaluation if it revalues all owned assets in that class of property, plant and equipment, in accordance with IAS 16 Property, Plant and Equipment. For the purposes of this revaluation, fair value need not be determined by reference to an active market

§22 If the lessee revalues a right-of-use asset in accordance with paragraph 21, it shall perform revaluations with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

§23 If the lessee revalues a right-of-use asset in accordance with paragraph 21, it shall recognise gains and losses on revaluation [...]

§24 A lessee shall apply IAS 36 Impairment of Assets at each reporting date [...]

Re-exposure Draft (Staff Draft, November 2011)

§16 After the date of commencement of the lease, a lessee shall measure:

(a) the liability to make lease payments at amortised cost using the effective interest method, subject to the requirements in paragraphs 17–19.

(b) the right-of-use asset at amortised cost unless paragraphs 21–24 apply.

§17 After the date of commencement of the lease, the lessee shall reassess the carrying amount of the liability to make lease payments arising from each lease if facts or circumstances indicate that there would be a significant change in the liability since the previous reporting period.

§20 If a lessee measures the right-of-use asset at amortised cost, it shall amortise the asset on a systematic basis from the date of commencement of the lease to the end of the lease term or over the useful life of the underlying asset if shorter.

§21 A lessee may measure a right-of-use asset at its fair value at the date of revaluation less any amortisation and impairment losses arising after the date of revaluation if it revalues all owned assets in that class of property, plant and equipment, in accordance with IAS 16 Property, Plant and Equipment. For the purposes of this revaluation, fair value need not be determined by reference to an active market

§22 If the lessee revalues a right-of-use asset in accordance with paragraph 21, it shall perform revaluations with such regularity that at the end of the reporting period the carrying amount of the asset does not differ materially from its fair value.

§23 If the lessee revalues a right-of-use asset in accordance with paragraph 21, it shall recognise gains and losses on revaluation [...]

§24 A lessee shall apply IAS 36 Impairment of Assets at each reporting date [...]

Presentation

IAS 17

§22 [...] it is appropriate for a finance lease to be recognised in the lessee's statement of financial position both as an asset and as an obligation to pay future lease payments. At the commencement of the lease term, the asset and the liability for the future lease payments are recognised in the statement of financial position at the same amounts except for any initial direct costs of the lessee that are added to the amount recognised as an asset.

§23 [...] If for the presentation of liabilities in the statement of financial position a distinction is made between current and non-current liabilities, the same distinction is made for lease liabilities.

Discussion Paper

§8.7 The IASB tentatively decided not to require separate presentation of the lessee's obligation to pay rentals in the statement of financial position.

§8.8 The FASB noted that the proposed accounting for the obligation to pay rentals differs from most other financial liabilities. For example, the obligation to pay rentals includes amounts payable in optional periods. Consequently, the FASB tentatively decided to require separate presentation.

§8.16 The boards tentatively decided that the right-of-use asset should be presented in the statement of financial position on the basis of the nature of the leased item. Some note that this approach provides users of financial statements with more information about the leased item than other possible approaches. However, the boards acknowledge that a leased asset is significantly different from an owned asset. Consequently, the boards tentatively decided that leased assets should be presented separately from owned assets.

§8.18 The boards noted that presentation in the statement of financial position of the assets and liabilities arising in the lease contract should drive income statement presentation. Consequently, the reduction in the carrying amount of right-of-use assets that are presented as property, plant and equipment should be presented as depreciation; the reduction in the carrying amount of leased assets that are presented as intangibles should be presented as amortisation. Interest expense on the obligation to pay rentals should be presented separately in the income statement if the obligation were

presented separately in the statement of financial position; otherwise it should be included in general interest expense.

§8.20 The boards have not discussed how the cash flows associated with lease contracts should be presented in the statement of cash flows. [...]

Exposure Draft

§25 A lessee shall present the following items in the statement of financial position:

- (a) liabilities to make lease payments, separately from other financial liabilities.
- (b) right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, separately from assets that the lessee does not lease.

§26 A lessee shall present amortisation of the right-of-use asset and interest expense on the liability to make lease payments separately from other amortisation and interest expense, either in profit or loss or in the notes.

§27 A lessee shall classify cash payments for leases as financing activities in the statement of cash flows and present them separately from other financing cash flows.

Re-exposure Draft (Staff Draft, November 2011)

At their 20 July 2011 meeting the boards discussed presentation in the lessee statement of financial position and tentatively decided that a lessee should:

- (a) Separately present in the statement of financial position, or disclose in the notes to the financial statements, right-of-use assets and liabilities to make lease payments. If right-of-use assets and liabilities to make lease payments are not separately presented in the statement of financial position, the disclosures should indicate in which line item in the statement of financial position the right-of-use assets and liabilities to make lease payments are included.

- (b) Present the right-of-use asset as if the underlying asset were owned. The boards also decided that it is not necessary to clarify whether the right-of-use asset is a tangible or an intangible asset.

At their 20 July 2011 meeting the boards also tentatively decided that a lessee should:

- (a) Present or disclose separately interest expense and interest paid relating to leases.
- (b) Not combine interest expense and amortisation expense and present it as lease or rent expense.

At their 20 July 2011 meeting the boards discussed the lessee's statement of cash flows and tentatively decided that a lessee should: (a) Classify cash paid for lease payments relating to the principal within financing activities.

- (b) Classify or disclose cash paid for lease payments relating to interest in the statement of cash flows in accordance with applicable IFRSs or US GAAP.

- (c) Classify as operating activities cash paid for variable lease payments that are not included in the measurement of the liability to make lease payments.

- (d) Classify as operating activities cash paid for short-term leases that are not included in the liability to make lease payments.

Disclosures

IAS 17

§31 Lessees shall, in addition to meeting the requirements of IFRS 7, make the following disclosures for finance leases:

- (a) for each class of asset, the net carrying amount at the end of the reporting period.
- (b) a reconciliation between the total of future minimum lease payments at the end of the reporting period, and their present value. In addition, an entity shall disclose the total of future minimum lease payments at the end of the reporting period, and their present value, for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.

- (c) contingent rents recognised as an expense in the period.
 - (d) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.
 - (e) a general description of the lessee's material leasing arrangements including, but not limited to, the following:
 - (i) the basis on which contingent rent payable is determined;
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt, and further leasing.
- §32 In addition, the requirements for disclosure in accordance with IAS 16, IAS 36, IAS 38, IAS 40 and IAS 41 apply to lessees for assets leased under finance leases.
- §35 Lessees shall, in addition to meeting the requirements of IFRS 7, make the following disclosures for operating leases:
- (a) the total of future minimum lease payments under non-cancellable operating leases for each of the following periods:
 - (i) not later than one year;
 - (ii) later than one year and not later than five years;
 - (iii) later than five years.
 - (b) the total of future minimum sublease payments expected to be received under non-cancellable subleases at the end of the reporting period.
 - (c) lease and sublease payments recognised as an expense in the period, with separate amounts for minimum lease payments, contingent rents, and sublease payments.
 - (d) a general description of the lessee's significant leasing arrangements including, but not limited to, the following:
 - (i) the basis on which contingent rent payable is determined;
 - (ii) the existence and terms of renewal or purchase options and escalation clauses; and
 - (iii) restrictions imposed by lease arrangements, such as those concerning dividends, additional debt and further leasing.

Discussion Paper

n/a

Exposure Draft

- §70 An entity shall disclose quantitative and qualitative financial information that:
- (a) identifies and explains the amounts recognised in the financial statements arising from leases; and
 - (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows.
- §71 An entity shall consider the level of detail necessary to satisfy the disclosure requirements in paragraphs 73–86 and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have different characteristics.
- §72 If the disclosures required by this and other IFRSs do not meet the objectives in paragraph 70, an entity shall disclose the additional information necessary to meet the objectives.
- §73 An entity shall disclose:
- (a) the nature of its lease arrangements, including:
 - (i) a general description of those lease arrangements.
 - (ii) the basis and terms on which contingent rentals are determined.
 - (iii) the existence and terms of options, including for renewal and termination. A lessee shall provide narrative disclosure about the options that were recognised as part of the right-of-use asset and those that were not.

- (iv) the existence and principal terms of any options for the lessee to purchase the underlying asset.
 - (v) information about assumptions and judgements relating to amortisation methods and changes to those assumptions and judgements.
 - (vi) the existence and terms of residual value guarantees.
 - (vii) initial direct costs incurred during the reporting period and included in the measurement of the right-of-use asset or right to receive lease payments.
 - (viii) the restrictions imposed by lease arrangements, such as those relating to dividends, additional debt and further leasing.
 - (b) information about the principal terms of any lease that has not yet commenced if the lease creates significant rights and obligations for the entity.
- §74 An entity shall identify the nature and amount of significant subleases included in the disclosures provided in accordance with paragraph 73.
- §75 An entity that accounts for short-term leases in accordance with paragraphs 64 and 65 shall disclose that fact and, for lessees, the amount recognised in the statement of financial position for such short-term leases.
- §76 A lessee that enters into a sale and leaseback transaction shall disclose that fact, disclose the terms and conditions for that transaction and identify any gains or losses arising from such transactions separately from gains or losses on other disposals of assets.
- §77 A lessee shall disclose a reconciliation of opening and closing balances of right-of-use assets and liabilities to make lease payments, disaggregated by class of underlying asset. The reconciliation shall show separately the total cash lease payments paid during the period.
- §83 An entity shall disclose information about significant assumptions and judgements and any changes in assumptions and judgements relating to renewal options, contingent rentals, term option penalties, residual value guarantees and the discount rate used when determining the present value of lease payments.
- §84 Except as described in paragraphs 85 and 86, an entity shall disclose information relating to risks arising from a lease required by paragraphs 31–42 of IFRS 7 *Financial Instruments: Disclosures*.
- §85 In place of the maturity analyses required by paragraph 39(a) and (b) of IFRS 7, a lessee shall disclose a maturity analysis of the liabilities to make lease payments showing the undiscounted cash flows on an annual basis for the first five years and a total of the amounts for the remaining years. The maturity analysis shall distinguish the minimum obligations specified in the lease (ie excluding contingent rentals and expected payments under term option penalties and residual value guarantees) and the amounts recognised in the statement of financial position.

Re-exposure Draft (Staff Draft, November 2011)

At their 20 July 2011 meeting the boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

- (a) All expenses relating to leases recognised in the reporting period, in a tabular format, disaggregated into (i) amortisation expense, (ii) interest expense, (iii) expense relating to variable lease payments not included in the liability to make lease payments, and (iv) expense for those leases for which the short-term practical expedient is elected, to be followed by the principal and interest paid on the liability to make lease payments.

In addition, the boards tentatively decided that a lessee is not required to disclose the following:

- (a) The discount rate used to calculate the liability to make lease payments.
- (b) The range of discount rates used to calculate the liability to make lease payments.
- (c) The fair value of the liability to make lease payments.
- (d) The existence and principal terms of any options for the lessee to purchase the underlying asset, or initial direct costs incurred on a lease.
- (e) Information about arrangements that are no longer determined to contain a lease.

With regard to future contractual commitments, the IASB tentatively decided that a lessee is not required to disclose the future contractual commitments associated with services and other non-lease components that are separated from a lease contract.

At their 20 July 2011 meeting the boards discussed lessee disclosures and tentatively decided that a lessee should disclose information about the principal terms of any lease that has not yet commenced, if the lease creates significant rights and obligations for the lessee.

At their 20 July 2011 meeting the boards discussed lessee disclosures and tentatively decided that a lessee should disclose the following:

(a) A reconciliation of the opening and closing balance of right-of-use assets, disaggregated by class of underlying asset.

(b) A reconciliation of the opening and closing balance of the liability to make lease payments (unlike the proposal in the exposure draft, a lessee would not be required to disaggregate the reconciliation by class of underlying asset).

At their 20 July 2011 meeting the boards discussed lessee disclosures and tentatively decided that a lessee should disclose a maturity analysis of the undiscounted cash flows that are included in the liability to make lease payments. The maturity analysis should show, at a minimum, the undiscounted cash flows to be paid in each of the first five years after the reporting date and a total of the amounts for the years thereafter. The analysis should reconcile to the liability to make lease payments.

Transition requirements

IAS 17

n/a

Discussion Paper

n/a

Exposure Draft

§88 For the purposes of the transition provisions in paragraphs 88–96, the date of initial application is the beginning of the first comparative period presented in the first financial statements in which the entity applies this [draft] IFRS. An entity shall recognise and measure all outstanding contracts within the scope of the [draft] IFRS as of the date of initial application using a simplified retrospective approach as described in paragraphs 90–96.

§89 An entity shall adjust the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had been applied from the beginning of the earliest period presented.

§90 Unless paragraphs 91–93 apply, at the date of initial application, a lessee shall:

(a) recognise a liability to make lease payments for each outstanding lease, measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on the date of initial application.

(b) recognise a right-of-use asset for each outstanding lease, measured at the amount of the related liability to make lease payments, subject to any adjustments required to reflect impairment.

§91 When lease payments are uneven over the lease term, a lessee shall adjust the right-of-use asset recognised at the date of initial application by the amount of any recognised prepaid or accrued lease payments.

§92 For leases that were classified in accordance with IAS 17 *Leases* as finance leases and do not have options, contingent rentals, term option penalties or residual value guarantees, the carrying amount at the date of initial application of the right-of-use asset and the liability to make lease payments shall be the carrying amount of the lease asset and liability under that standard.

§93 For each short-term lease that the lessee accounts for in accordance with paragraph 64, at the date of initial application a lessee shall recognise a liability to make lease payments measured at the undiscounted amount of the remaining lease payments and a right-of-use asset at the amount of the

liability recognised.

Re-exposure Draft (Staff Draft, November 2011)

At their 19 October 2011 meeting, to ease the potential burden of applying the final standard in the first year of application, the boards tentatively decided that lessees and lessors may elect the following reliefs: (a) An entity is not required to evaluate initial direct costs for contracts that began before the effective date. (b) An entity may use hindsight in comparative reporting periods including the determination of whether or not a contract is a lease or contains a lease.

At their 19 September 2011 meeting the boards discussed the transition requirements for lessees when first applying the proposed leases standard. The boards will continue to discuss lessee transition when they discuss lessor transition at a future meeting.

At their 19 October 2011 meeting the boards tentatively decided that for each operating leases at the beginning of the earliest comparative period presented, a lessee should recognise liabilities to make lease payments at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of the effective date for each portfolio of leases with reasonably similar characteristics. The incremental borrowing rate for each portfolio of leases should take into consideration the lessee's total leverage, including leases in other portfolios.

At their 19 October 2011 meeting the boards tentatively decided that for each operating leases at the beginning of the earliest comparative period presented, a lessee should recognise right-of-use assets on the basis of proportion of the liability to make lease payments at lease commencement, relative to the remaining lease payments. A lessee should record to retained earnings any difference between the liabilities to make lease payments and the right-of-use assets at transition.

At their 19 October 2011 meeting the boards also tentatively decided that when lease payments are uneven over the lease term, a lessee should adjust the right-of-use asset recognised at the beginning of the earliest comparative period presented by the amount of any recognised prepaid or accrued lease payments.

At their 19 October 2011 meeting the boards tentatively decided that for capital or finance leases existing at the beginning of the earliest comparative period presented, a lessee would not be required to make any adjustments to the carrying amount of the lease assets and lease liabilities. However, the entity would reclassify the lease assets and lease liabilities as right-of-use assets and liabilities to make lease payments.

Appendix B – Comment Letter Coding Schemes

Comment Letter Coding Scheme - Discussion Paper				
KI#	Key Issue (KI)	DP Q No.	Discussion Paper Question	Argument Direction Cod-ing
RoU	Lessee Accounting Model: RoU Model	4	The boards tentatively decided to adopt an approach to lessee accounting that would require the lessee to recognize: (a) an asset representing its right to use the leased item for the lease term (the right-of-use asset) (b) a liability for its obligation to pay rentals. Do you support the proposed approach?	Support +2; partial support +1; partial opposition -1; opposition -2; no opinion/neutral 0 -
KI1	Standard Scope: Non-core Leases	2	Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.	+1 if support for non-core asset exclusion; 0 if neutral/not stated; -1 if against non-core asset exclusion 1
KI2	Standard Scope: Short-term Leases	2	Should the proposed new standard exclude non-core asset leases or short-term leases? Please explain why. Please explain how you would define those leases to be excluded from the scope of the proposed new standard.	+1 if support short-term leases exclusion; 0 if neutral/not stated; -1 if against short-term lease exclusion 1
KI3	Lease Payment Components: Purchase Options	15	The boards tentatively concluded that purchase options should be accounted for in the same way as options to extend or terminate the lease. Do you agree with the proposed approach? If you disagree with the proposed approach, please describe what alternative approach you would support and why.	+1 if support recognition purchase options; 0 if neutral/not stated; -1 if against recognition purchase options 1
KI4	Lease Payment Components: Contingent Rentals	16	The boards propose that the lessee's obligation to pay rentals should include amounts payable under contingent rental arrangements. Do you support the proposed approach? If you disagree with the proposed approach, what alternative approach would you recommend and why?	+1 if support recognition contingent rentals; 0 if neutral/not stated; -1 if against recognition contingent rentals 1
KI5	Lease Term	13	The boards tentatively decided that the lessee should recognize an obligation to pay rentals for a specified lease term, i.e. in a 10-year lease with an option to extend for five years, the lessee must decide whether its liability is an obligation to pay 10 or 15 years of rentals. The boards tentatively decided that the lease term should be the most likely lease term. Do you support the proposed approach?	+1 if support recognition most likely term with renewal options; 0 if neutral/not stated; -1 if against recognition most likely term with renewal options 1
KI6	Reassessment of Components and Lease Term	14, 19	14 The boards tentatively decided to require reassessment of the lease term at each reporting date on the basis of any new facts or circumstances. Changes in the obligation to pay rentals arising from a reassessment of the lease term should be recognized as an adjustment to the carrying amount of the right-of-use asset. Do you support the proposed approach? 19 The boards tentatively decided to require remeasurement of the lessee's obligation to pay rentals for changes in estimated contingent rental payments. Do you support the proposed approach? If not, please explain why.	+1 if support reassessment at each reporting date; 0 if neutral/not stated; -1 if against reassessment at each reporting date 1
KI7	Subsequent Measurement	8	The boards tentatively decided to adopt an amortized cost-based approach to subsequent measurement of both the obligation to pay rentals and the right-of-use asset. Do you agree with this proposed approach? If you disagree with the boards' proposed approach, please describe the approach to subsequent measurement you would favor and why.	+1 if support amortized-cost based method; 0 if neutral/not stated; -1 if against amortized-cost based method 1
KI	Presentation: Balance Sheet	22, 23	22 -Should the lessee's obligation to pay rentals be presented separately in the statement of financial position? Please explain your reasons. What additional information would separate presentation provide? 23 - This chapter describes three approaches to presentation of the right-of-use asset in the statement of financial position. How should the right-of-use asset be presented in the statement of financial position?	+1 if support separation of RoU items in the BS; 0 if neutral/not stated; -1 if against separation of RoU items in the BS 1

Comment Letter Coding Scheme – Exposure Draft					
KI#	Key Issue (KI)	ED Q No.	Exposure Draft Question	Argument Direction	Cod- ing
RoU	Lessee Accounting Model: RoU Model	1a	Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?	Support +2; opposition -2; partial support +1; partial opposition -1; no opinion/other 0	-
KI2	Standard Scope: Short-term Leases	3	Do you agree that a lessee or a lessor should account for short-term leases in this way? Why or why not? If not, what alternative approach would you propose and why?	+1 if support short-term leases recognition; 0 if neutral/not stated; -1 if against recognition	1
KI3	Lease Payment Components: Purchase Options	7	Do you agree that a lessee or a lessor should account for purchase options only when they are exercised? Why or why not? If not, how do you think that a lessee or a lessor should account for purchase options and why?	+1 if support not recognition purchase options (recognition support); 0 if neutral/not stated; -1 if against not recognition	1
KI4	Lease Payment Components: Contingent Rentals	9	Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique? Why or why not? If not, how do you propose that a lessee or a lessor should account for contingent rentals and expected payments under term option penalties and residual value guarantees and why?	+1 if support recognition contingent rentals; 0 if neutral/not stated; -1 if against recognition contingent rentals	1
KI5	Lease Term	8	Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease? Why or why not? If not, how do you propose that a lessee or a lessor should determine the lease term and why?	+1 if support recognition most likely term with renewal options; 0 if neutral/not stated; -1 if against recognition most likely term with renewal options	1
KI6	Reassessment of Components and Lease Term	10	Do you agree that lessees and lessors should remeasure assets and liabilities arising under a lease when changes in facts or circumstances indicate that there is a significant change in the liability to make lease payments or in the right to receive lease payments arising from changes in the lease term or contingent payments (including expected payments under term option penalties and residual value guarantees) since the previous reporting period? Why or why not? If not, what basis would you propose for reassessment and why?	+1 if support reassessment every time significant changes; 0 if neutral/not stated; -1 if against reassessment every time significant changes	1
KI7	Subsequent Measurement	1b	Do you agree that a lessee should recognize amortization of the right-of-use asset and interest on the liability to make lease payments? Why or why not? If not, what alternative model would you propose and why?	+1 if support amortized-cost based method; 0 if neutral/not stated; -1 if against amortized-cost based method	1
KI8	Presentation: Balance Sheet	12a	Do you agree that a lessee should present liabilities to make lease payments separately from other financial liabilities and should present right-of-use assets as if they were tangible assets within property, plant and equipment or investment property as appropriate, but separately from assets that the lessee does not lease (paragraphs 25 and BC143–BC145)? Why or why not? If not, do you think that a lessee should disclose this information in the notes instead? What alternative presentation do you propose and why?	+1 if support separation of items in the BS; 0 if neutral/not stated; -1 if against separation of items in the BS	1
KI9	Presentation: Income Statement	13	Do you think that lessees and lessors should present lease income and lease expense separately from other income and expense in profit or loss (paragraphs 26, 44, 61, 62, BC146, BC151, BC152, BC157 and BC158)? Why or why not? If not, do you think that a lessee should disclose that information in the notes instead? Why or why not?	+1 if support separation of items in the IS; 0 if neutral/not stated; -1 if against separation of items in the IS	1
KI10	Presentation: Cash Flow Statement	14	Do you think that cash flows arising from leases should be presented in the statement of cash flows separately from other cash flows (paragraphs 27, 45, 63, BC147, BC153 and BC159)? Why or why not? If not, do you think that a lessee	+1 if support separation of items in the CFS; 0 if neutral/not stated; -1 if against separation of items	1

		or a lessor should disclose this information in the notes instead? Why or why not?	<i>in the CFS</i>	
KI11 Disclosures	15	Do you agree that lessees and lessors should disclose quantitative and qualitative information that: (a) identifies and explains the amounts recognized in the financial statements arising from leases; and (b) describes how leases may affect the amount, timing and uncertainty of the entity's future cash flows (paragraphs 70–86 and BC168–BC183)? Why or why not? If not, how would you amend the objectives and why?	<i>+1 if support disclosure details; 0 if neutral/not stated; -1 if against disclosure details</i>	1
KI12 Transition	16a	The exposure draft proposes that lessees and lessors should recognize and measure all outstanding leases as of the date of initial application using a simplified retrospective approach (paragraphs 88–96 and BC186–BC199). Are these proposals appropriate? Why or why not? If not, what transitional requirements do you propose and why?	<i>+1 if support retrospective approach; 0 if neutral/not stated; -1 if against retrospective application</i>	1

Argument Taxonomy for Coding	
1 Expected Economic Consequences (on firm and/or on industry level)	<ul style="list-style-type: none"> a Impact on business model and/or on the industry b Financing effects for preparers c Macroeconomic impacts (e.g. loss of jobs, competition) d Other expected economic consequence
2 Feasibility of Application of RoU Model (internal operational concerns)	<ul style="list-style-type: none"> a Information availability and aggregation b Costs of implementation and book-keeping costs c Preparation of estimates, professional judgment from managers d Other internal/operational concerns
3 Accounting Quality	<ul style="list-style-type: none"> a Scope arguments (definition leases, additional guidance, connection with revenue recog., lessor acc.) b Economic rationale and underlying rationale/substance of contracts vs. form c RoU as application of the asset / liability Framework definition d New potential structuring opportunities e Comparability of financial statements f Cost-benefit relation g Other fundamental or enhancing accounting qualitative characteristic (e.g. materiality)

Appendix C – Statistics Lobbying Rationale by Industry

Descriptive Statistics Lobbying Rationale by Industry												
Variables			Discussion Paper (DP)					Exposure Draft (ED)				
	Name	Abrev.	N	Min	Max	Mean	Std. Dev	N	Min	Max	Mean	Std. Dev
INDU_RETAIL	RoU_SCORE	DV1	8	-2,00	1,00	-0,88	1,25	35	-2,00	1,00	-0,80	1,23
	KI_SCORE	DV2	8	-8,00	2,00	-3,25	3,54	35	-11,00	0,00	-5,06	2,87
	BS_EFFECT	INDV1	8	0,04	0,57	0,23	0,17	35	0,00	2,46	0,50	0,53
	IS_EFFECT	INDV2	8	1,48	23,57	5,93	7,41	35	0,00	56,22	5,50	10,38
	COV1_LEV	INDV3	8	0,09	0,84	0,40	0,23	35	0,01	4,11	0,76	0,92
	COV2_ICR	INDV4	8	1,35	31,58	8,89	10,03	35	0,56	99,05	13,36	22,24
	PAST_LOB_DP	INDV6	8	0,00	2,00	0,50	0,76	35	0,00	2,00	0,09	0,37
	PAST_LOB_ED	INDV7	8	0,00	0,00	0,00	0,00	35	0,00	2,00	0,26	0,56
	ASSO_RoU_SCORE	INDV8	8	-2,00	0,00	-0,75	0,89	35	-2,00	1,00	-0,77	1,00
	ASSO_KI_SCORE	INDV9	8	-5,00	0,00	-1,25	1,75	35	-10,00	0,00	-2,60	3,52
	KI_NO_ANSWERS	CV1	8	3,00	9,00	8,25	2,12	35	0,00	11,00	7,17	3,29
INDU_ENERGY	RoU_SCORE	DV1	15	-2,00	2,00	-0,80	1,21	29	-2,00	1,00	-0,72	1,25
	KI_SCORE	DV2	15	-6,00	4,00	-2,07	3,10	29	-9,00	1,00	-4,14	2,67
	BS_EFFECT	INDV1	15	0,01	0,14	0,05	0,05	29	0,01	0,34	0,05	0,07
	IS_EFFECT	INDV2	15	7,12	118,65	29,19	27,90	29	0,20	66,94	18,12	17,35
	COV1_LEV	INDV3	15	0,06	1,92	0,65	0,56	29	0,04	3,84	0,90	0,77
	COV2_ICR	INDV4	15	1,61	44,38	14,16	15,51	29	0,18	35,29	6,59	9,23
	PAST_LOB_DP	INDV6	15	0,00	4,00	0,60	1,40	29	0,00	4,00	0,17	0,76
	PAST_LOB_ED	INDV7	15	0,00	7,00	1,00	1,81	29	0,00	7,00	0,69	1,37
	ASSO_RoU_SCORE	INDV8	15	-2,00	1,00	-0,73	0,96	29	-2,00	1,00	-0,38	1,01
	ASSO_KI_SCORE	INDV9	15	-5,00	1,00	-1,40	1,99	29	-10,00	0,00	-2,21	3,74
	KI_NO_ANSWERS	CV1	15	1,00	9,00	6,73	2,94	29	0,00	11,00	7,79	3,31
INDU_TELECOM	RoU_SCORE	DV1	9	-2,00	1,00	-1,33	1,00	11	-2,00	1,00	-0,36	1,36
	KI_SCORE	DV2	9	-6,00	0,00	-3,00	1,87	11	-9,00	5,00	-2,09	4,32
	BS_EFFECT	INDV1	9	0,04	0,15	0,09	0,04	11	0,03	0,16	0,09	0,05
	IS_EFFECT	INDV2	9	2,82	14,17	8,10	4,33	11	0,52	47,15	9,09	13,11
	COV1_LEV	INDV3	9	0,06	2,49	1,16	0,71	11	0,30	3,98	1,42	1,00
	COV2_ICR	INDV4	9	1,05	27,87	5,77	8,37	11	0,25	4,42	2,07	1,42
	PAST_LOB_DP	INDV6	9	0,00	2,00	0,44	0,73	11	0,00	1,00	0,18	0,40
	PAST_LOB_ED	INDV7	9	0,00	5,00	2,00	2,06	11	0,00	5,00	1,27	1,68
	ASSO_RoU_SCORE	INDV8	9	-2,00	0,00	-0,67	0,87	11	-2,00	1,00	-1,00	1,18
	ASSO_KI_SCORE	INDV9	9	-7,00	0,00	-1,56	2,24	11	-10,00	0,00	-3,64	4,30
	KI_NO_ANSWERS	CV1	9	5,00	9,00	8,44	1,33	11	3,00	11,00	8,36	3,04
INDU_HEALTH	RoU_SCORE	DV1	2	-1,00	-1,00	-1,00	0,00	9	-2,00	1,00	0,00	1,22
	KI_SCORE	DV2	2	1,00	2,00	1,50	0,71	9	-9,00	-2,00	-4,11	2,15
	BS_EFFECT	INDV1	2	0,02	0,13	0,08	0,08	9	0,01	1,24	0,19	0,40
	IS_EFFECT	INDV2	2	13,22	28,55	20,89	10,84	9	0,27	51,99	23,36	17,46
	COV1_LEV	INDV3	2	0,03	0,07	0,05	0,03	9	0,12	4,91	0,82	1,54
	COV2_ICR	INDV4	2	7,07	45,19	26,13	26,95	9	4,55	22,21	10,17	6,70
	PAST_LOB_DP	INDV6	2	0,00	2,00	1,00	1,41	9	0,00	2,00	0,22	0,67
	PAST_LOB_ED	INDV7	2	0,00	4,00	2,00	2,83	9	0,00	4,00	0,78	1,30
	ASSO_RoU_SCORE	INDV8	2	0,00	1,00	0,50	0,71	9	-2,00	0,00	-0,56	0,88
	ASSO_KI_SCORE	INDV9	2	0,00	1,00	0,50	0,71	9	-10,00	0,00	-1,56	3,43
	KI_NO_ANSWERS	CV1	2	4,00	9,00	6,50	3,54	9	2,00	11,00	5,22	3,46
INDU_OTHER	RoU_SCORE	DV1	14	-2,00	1,00	-0,86	1,29	22	-2,00	1,00	-0,82	1,22
	KI_SCORE	DV2	14	-8,00	2,00	-2,14	2,88	22	-10,00	0,00	-4,41	2,54
	BS_EFFECT	INDV1	14	0,01	0,61	0,14	0,16	22	0,01	0,58	0,16	0,16
	IS_EFFECT	INDV2	14	0,17	66,26	12,62	17,16	22	0,39	37,61	8,71	9,08
	COV1_LEV	INDV3	14	0,12	5,80	0,85	1,45	22	0,00	3,09	0,62	0,63
	COV2_ICR	INDV4	14	0,57	16,85	6,78	4,59	22	0,43	61,48	11,65	18,46
	PAST_LOB_DP	INDV6	14	0,00	3,00	0,50	0,85	22	0,00	1,00	0,09	0,29
	PAST_LOB_ED	INDV7	14	0,00	2,00	0,50	0,65	22	0,00	2,00	0,55	0,60
	ASSO_RoU_SCORE	INDV8	14	-2,00	1,00	-0,79	1,05	22	-2,00	1,00	-0,27	0,77
	ASSO_KI_SCORE	INDV9	14	-7,00	1,00	-1,00	1,92	22	-7,00	0,00	-1,14	2,29
	KI_NO_ANSWERS	CV1	14	1,00	9,00	6,21	3,02	22	1,00	11,00	5,64	2,90