

THE INTERNATIONAL STANDARDIZATION OF ACCOUNTING: THE RESISTIBLE RISE OF THE IASC/IASB

The International Accounting Standards Board and International Association for Statistical Computing produce information for investors. These private international organizations draw legitimacy for setting bookkeeping standards from the English-speaking world but have no power to actually enforce the standards they approve. They have to constantly prove their legitimacy and seek support from more powerful organizations, such as the International Institute for Facilitation and Consensus (IFAC), the International Organization of Securities Commissions (IOSCO) or the European Union, itself divided between a shareholder model (in English-speaking lands) and a partnership model (on the European mainland). The recent rejection of standards 32 and 39 suggests that supporters of the continental model are opposing specifications based on the Anglo-Saxon model

By **Bernard COLASSE**, CREFIGE, University of Paris-Dauphine

Article translated from French by Noal Mellott (CNRS, Paris, France)

Article published in French in *Gérer et Comprendre* [March 2004] <http://www.anales.org/>

On 16 July 2003, the EU's Accounting Regulatory Committee (ARC) unanimously voted for the European Commission's plan for adopting the 34 standards of the International Accounting Standards Board (IASB) with the exception of standards 32 and 39 on accounting and the disclosure of financial instruments. Furthermore, ARC's rejection of two out of the 34 standards and its position on examining future standards proposed by the IASB set off commotion among accountants. Till then, it was thought that IASB standards formed a whole to be approved as such. This decision risks impeding the application, set for 1 January 2005, of IASB standards by the more than

seven thousand companies listed on EU stock exchanges. Validating ARC's opinion, Regulation 1725/2003 of 29 September 2003 ratified the IASB standards except for 32 and 39 and called for overhauling these two. Commotion also broke out in financial circles and even public opinion. Major newspapers, which normally show little interest in bookkeeping, now ran rather long stories.⁽¹⁾ Why was so much inte-

(1) In the dailies *Le Monde* and *Le Figaro*. Even *Libération* devoted two articles in its 17 July 2003 issue to the event. These articles, signed by Grégoire BISEAU and Jean QUATREMER, bore titles in this newspaper's style, respectively: "L'Europe donne sa leçon de comptabilité" and "Un pataquès nommé IAS 32 and IAS 39".

rest shown in an event that, all things considered, carried little importance compared with other problems and trouble spots on the planet? Let us propose an answer: despite appearances, this event did not just concern bookkeeping practices. It was realized that, behind the standardization of accountancy, something else was at stake, namely governance in big firms and control over their access to international capital markets. As a consequence, this event began taking on meaning outside the realm of accountants. It raised questions about the new forms of regulation set up at the international level, about the place of new private players (such as the IASB) in this context of globalization – their powers, legitimacy, and relations with governments and intergovernmental organizations – and about the relations between the United States and the rest of the world.

These considerations suggest taking a closer look at the IASB, a mysterious organization till then unknown to public opinion. Owing to the IASB's relations with the EU, public opinion became aware of its existence. Let us start by looking back toward the IASB's origins so as to shed light on its identity as an international organization; and then we can review its relations with the EU.

THE IASC/IASB, A WEAK ORGANIZATION IN NEED OF SUPPORT

Since 2001, the IASB is the operational wing of the International Accounting Standards Committee (IASC), which, founded in 1973, drafts international standards.⁽²⁾ The IASC/IASB is an organization without any powers of enforcement (WALTON 2001). To reach its goals, it embarked upon a strategic quest to find support and thus make up for the power it lacked. Undertaken without many resources, at least initially, this quest for backing was largely based on arguments framed in terms of competence, impartiality and independence.

An organization without power

Henry Benson, a partner of Coopers and Lybrand Corporate Finance in London, had the idea of creating what became the IASC. He intended to set up an organization for drawing up standards to be adopted in several countries so that national accountancy specifications would gradually converge. This convergence, called “harmonization”, is to be distinguished from standardization, which is intended to apply identical standards for uniformizing accounting practices in a geographi-

cal zone. Harmonization, on the contrary, supposedly authorizes a variety of practices while trying to establish equivalences among them. Though, in principle, less restrictive than standardization, harmonization is a watered-down version of standardization – a first step toward it (COLASSE 2000), as the IASC's history proves.

Benson persuaded the Institute of Chartered Accountants of England and Wales (ICAEW), which he had presided, to invite professional bodies from various countries to take part in setting up the new organization. Professional groups from the following countries accepted: Australia, Canada, France, Germany, Japan, Mexico, Netherlands, United States and, of course, United Kingdom (along with Ireland). They participated in founding the International Accounting Standards Committee in 1973 with Benson as first chairman. As of 1974, new members joined, among them: Belgium, India, New Zealand and Pakistan.

Let us take stock: the idea of forming the IASC came from a senior partner in a major corporate group; the IASC was created on an initiative from the British accounting profession; and its founding members represented this profession from eight wealthy countries with quite different accounting practices. By simplifying, we dare say that its initial members followed one of two accountancy systems (COLASSE 2002): the “Anglo-Saxon model” used in

Two systems of accountancy competing at the international level		
	The “Anglo-Saxon shareholder model”	The “continental partnership model” on mainland Europe
<i>The users of accounting information</i>	Mainly investors	A wide range of parties: creditors, partners, the government, personnel...
<i>Priority among bookkeeping principles</i>	The principles of “true and fair view” and of “substance over form”	The principles of regularity (compliance with the law) and sincerity (“good faith”)
<i>The latitude left to professionals</i>	Wide	Narrow
<i>Relations between accountancy and taxation</i>	Weak	Strong
<i>The role of accounting</i>	Assist decision-making	Present and audit accounts

Table 1

(2) This factual information comes from www.iasplus.com.



BERNARD COLASSE

© Hulton coll./CORBIS

“The nine initial members of the IASC followed one of two accountancy systems (Colasse 2002): the “Anglo-Saxon model” used in English-speaking lands (Australia, Canada, the United Kingdom and United States) or the “continental model” used on mainland Europe (France and Germany), with predominance of the former: these characteristics of the IASC, present at its foundation, affected its strategy and future” (Office of the Bank of America).

English-speaking lands (Australia, Canada, the United Kingdom and United States) or the “continental model” used on mainland Europe (France and Germany). The predominance of the former grew when new members from former British colonies joined in 1974. As we shall see, these characteristics of the IASC, present at its foundation, carry weight in its strategy and future.

As an international professional organization, the IASC was unable to impose its standards – not even in those countries with accounting organizations belonging to it. The national organizations only pledged to tout its standards in their homelands. In countries where the accountancy profession did not have the power to set standards, IASC standards could be applied only if they were not at odds with national regulations. This was the case in France, represented on the IASC by the Ordre des Experts-Comptables and the Compagnie Nationale des Commissaires aux Comptes. Neither of these organizations had (or have, for that matter) the power to set standards. This power belongs to the Conseil National de la Comptabilité (henceforth CNC), an assembly whose

members represent various parties concerned with bookkeeping. At preset, the CNC has 58 members, representing public authorities, the accounting profession, firms in all branches of industry and – unique in the world – labor unions.

IFAC's backing

Aware that it exercised only the power to influence in most countries, the IASC tried to draw up sufficiently open standards that would not be incompatible with national accounting regulations. Some of these standards were designed to fill gaps in existing regulations. These gaps became nooks where the IASC proved its competence: for instance, the question of consolidated accounts at a time when this practice did not exist in many lands. Since national regulations said nothing about consolidating accounts, several French firms, under pressure from the Commission des Opérations de Bourse (the French securities commission, henceforth COB) preferred using IASC instead of American standards. This earned a reputation for the IASC.



The IASC won its first laurels in 1982 when the International Federation of Accountants (IFAC) recognized it as the “global accounting standard-setter”. Founded in 1977, IFAC grouped, at the time, auditing organizations from approximately sixty countries. It was devoted to promoting international auditing standards and training auditors. IFAC’s backing had two advantages for the IASC. For one thing, it considerably extended the latter’s worldwide influence. For another, it allowed the IASC to open its doors toward developing countries and no longer appear to be a club of wealthy nations. IFAC decided to cover the costs of participation in ten IASB board meetings per developing country and to sponsor means for the others to participate from a distance. Thanks to IFAC, the IASC reinforced its international base despite being, fundamentally, an organization without power.

Toward the mid-1980s, the IASC experienced difficulties, as questions arose about its utility. These difficulties were, by and large, related to European efforts during the 1970s to harmonize accounting practices, as the EC’s fourth and seventh directives (1978 and 1983) gradually went into effect. The fourth deals with the objectives, presentation and contents of the annual accounts of “companies limited by shares or by guarantee”. Though drawing from the continental system, it made room for certain principles from the Anglo-Saxon system, in particular, the principle of “true and fair view”. The seventh directive on consolidated accounts borrowed more heavily from the same system, in particular the principle of (economic) substance over (legal) form. These directives came out of a sort of compromise between the Anglo-Saxon model, advocated by Great Britain, and the continental one, defended by Germany and France (Table 1). Their contents were carried over into the legislation of member states with more or less distant deadlines. As they were enforced, in particular the directive about consolidated accounts, the IASC lost its preferred field of action and any hope of seeing its standards applied in Europe. To survive, it reoriented its activities toward developing countries (WALLACE 1990). However its standards, mainly designed for big firms, were not very convincing for companies there. It managed to find a new orientation thanks to the International Organization of Securities Commissions (IOSCO).

The IOSCO’s backing

The IOSCO federates all regulators worldwide of national capital markets, including the powerful American Securities and Exchange Commission (SEC) and French COB. Like the IASC/IASB, this “club of security commissions” (PÉRIER 1995) only has the power to influence, but it wields powerful influence owing to the SEC’s participation. The

IOSCO supports standards for facilitating international operations on financial instruments, accounting standards in particular.

The IASC was more or less in competition with the IOSCO. Had the latter drawn up its own standards, the IASC would have been pushed out on the margins. In the late 1980s for example, dealings between the two organizations led to the IASC becoming the standard-setter for the IOSCO, which let it be understood that it would eventually adopt the standards after modification. This deal endowed the IASC with strong legitimacy in capital markets, in particular American ones.

Meanwhile, the IASC was reorienting its activities by adopting a “conceptual framework”. A conceptual framework is a coherent set of objectives, principles and concepts for standard-setters to use. To a certain extent, the latter can deduce standards from this framework – an act of deduction unlike the emergence of standards out of generally accepted practices. In 1989, Exposure Draft E323 on the comparability of financial reporting defined this new orientation. Accordingly, modified standards and future standards should no longer contain options. Instead, they should indicate for each problem a “benchmark treatment” and a secondary “allowed treatment”. Tightening standards to make them more coercive was a response to financial market requirements. However it increased the risks of standards being incompatible with national regulations.

The adoption of an American conceptual framework

The *Framework for financial reporting*, published in 1989, was a throwback to the one that the Financial Accounting Standards Board (FASB), the American standard-setter, had adopted in the early 1980s. Paragraph 10 asserts that investors rather than other parties should have priority in accessing financial records. According to it, financial reporting is unable to satisfy all the needs of those who use the information even though all users do share some needs. Since investors bring capital at a risk to firms, providing them with financial reports that suit their needs is a way to satisfy most of the needs of any other users. In short, what is good for investors is good for everyone! Left unsaid was that the IASB, like the FASB, adhered to the Friedmanian conception of corporate responsibility. Accordingly, a firm’s responsibilities are purely economic, and it has to justify its actions to shareholders alone. This allegiance, problematic in and of itself, to the FASB’s conceptual framework and thus to the orientation of accountancy toward shareholders satisfied the American dominated IOSCO. To meet IOSCO requirements and try to become its standard-setter, the IASC took a turn toward the

“Anglo-Saxon” model (HEEM & AONSO 2003). Apart from its relations with the IOSCO, its aim was to be in the good graces of the SEC and American capital markets. For its part, the SEC declared that it would recognize IASC standards about financial reporting and consolidated accounts, standards very close to the FASB’s.

Collaboration with the IOSCO

Collaboration between the IASC and IOSCO took shape in the early 1990s. Paradoxically, the IOSCO would take its time before recognizing IASC standards. In 1994, its technical committee, headed by the president of the French COB, announced that it was ready to accept the standard on financial reporting. In its opinion, fourteen other standards had already reached the required level of quality; but the remaining ones should be improved, and work should start on new standards.

Various reasons account for what looks like a turnaround by the IOSCO and a semifailure for the IASC. Nevertheless the major stake in setting up international accounting standards is (and is likely to remain), we assume, the access of non-American firms to capital markets in the United States. In the 1990s, some firms that were not American had started applying the Generally Accepted Accounting Principles (GAAP) in order to meet the requirements for being listed in American stock markets.⁽³⁾ Consequently, the Americans thought that the IOSCO’s strategy of supporting IASC standards was no longer worth pursuing, since American standards were going to prevail (WALTON 2001).

This turnaround did not discourage the IASC however. It maintained contacts with the IOSCO. In 1995, during the latter’s annual congress in Paris, the chairmen of the IASC and of the IOSCO’s technical committee announced a new program for the IASC. The accomplishment of this program, scheduled for 1999, was to lead to the approval of IASC standards by the IOSCO. This new commitment by the IOSCO can be set down to the refusal of some of its members to leave firms in their countries adopt the GAAP. For them, IASC standards, though close to the GAAP from a technical viewpoint, represented a political alternative to American standards.

The long and short of it is that the IASC was able to take advantage of dissensions inside the IOSCO and of the opposition of certain members to American standards. The IOSCO ended up adopting IASC standards, but this did not mean that they would be

applied in countries belonging to the organization. The IOSCO, an international body under private law, does not have any more power than the IASC. The situation in the EU is completely different. The EU is an interstate organization capable of enforcing its decisions on member states. This accounts for its interest in the IASC, since it could make up for the latter’s lack of enforcement powers.

Before turning our attention to relations between the IASC and EU, let us take a brief look at the rhetoric used by the IASC/IASB in its quest to obtain the legitimacy and backing needed to expand its power and reach its objectives.

The rhetoric of competence, independence and impartiality

Rhetoric is the art of convincing through words or deeds. For want of other means to obtain and maintain the backing needed to reach its objective of setting standards, the IASC/IASB always based its arguments on competence, independence and impartiality. To illustrate this rhetoric, we shall take as examples the IASC/IASB’s conceptual framework, its “due process” procedure for drawing up standards and its recent organizational reform.

By adopting in 1989 a conceptual framework, the IASC/IASB asserted its theoretical competence and determination to provide scientific grounds for its work on standards. This assertion has been validated in part only, whence its rhetorical facets. The conceptual framework is far from a coherent accounting theory, even admitting that such a theory is possible. Besides, several standards contain items in contradiction with the framework. Standard-setters, if they want to see their standards applied, have no other choice than to take existing practices under consideration; and these might be far out of line with standards obtained by direct deduction from a pre-existing theoretical framework. Moreover, they cannot ignore the many effects, economic but also social, of the standards set (ZEFF 1978). Nonetheless, a conceptual framework may well create the illusion of being scientific and become a source of legitimacy that is all the more useful when there is no other (PEASNELL 1982).

Through its due process, the IASC/IASB tries to involve all parties in drafting its standards and thus prove its impartiality.⁽⁴⁾ Once again, rhetoric plays a role. It is not possible to imagine making the IASB shift its position unless the primacy granted to investors in its conceptual framework is accepted.

(3) The FASB now drafts these standards.

(4) Drafting a standard is a ritualized procedure: the publication of preliminary documents, in particular, an “exposure draft”. This procedure is a way to organize lobbying.

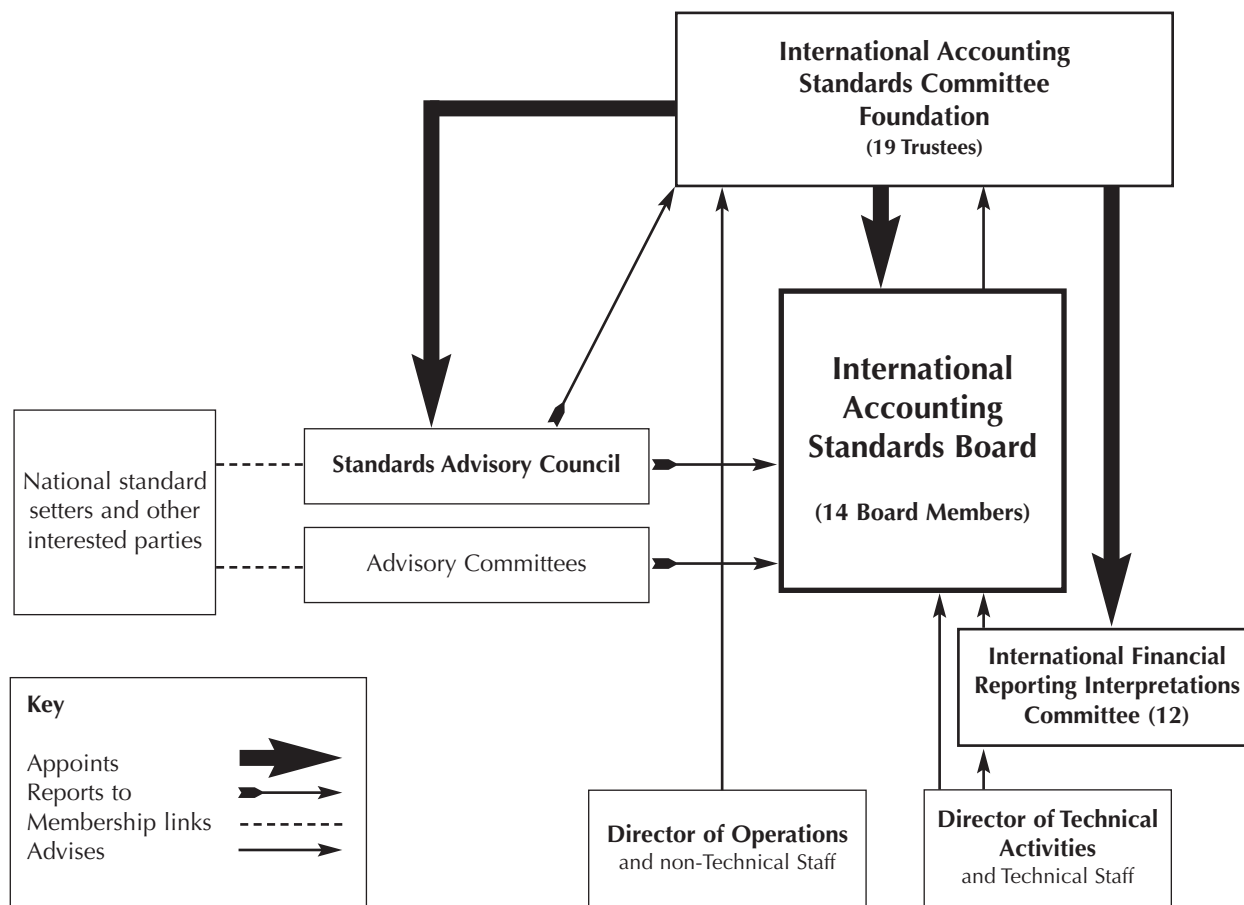


Figure 1 : « La nouvelle structure (2001) de l'IAQSC »

Furthermore, only parties disposing of adequate financial resources or the necessary technical qualifications can actually intervene in this due process and hope to have their voices heard by the board. Other parties are passive onlookers during negotiations between these powerful players and the IASC/IASB. Though lacking proof, we might suppose that the “big four” exercises a nonnegligible, direct or indirect, influence on the IASC/IASB during due process, since they have the doctrinal and financial resources for effectively playing a part and lobbying.

A final point: the IASC/IASB could obtain recognition from the organizations whose backing it sought only if it appeared independent. This probably explains its structural reform in 2001⁽⁵⁾ This reform released it from oversight by the accountancy profession alone⁽⁶⁾ while keeping it at a distance from national standard-setters. Its structure (Figure 1) was copied after the FASB's. The IASC is now a foundation with nineteen trustees representing parties directly concerned with standardizing international bookkeeping rules. These trustees appoint the four-

teen members of the IASB. Once appointed, these fourteen board members are supposed to be fully independent. This leads us to wonder what is meant by independence and whether it is possible.

Who can claim to be independent? We always depend on our background – training, experience, social environment, etc. Ten of the fourteen board members, coming from the English-speaking world, are familiar with the accounting model used there. Without casting doubt on their integrity, we wonder whether they are independent from that model. Even admitting that an organization like the IASB could be independent, it would still face questions about its legitimacy. To whom is it accountable? Who evaluates it? How paradoxical that an organization setting accounting standards does not have to account to anyone!

A last point about its rhetoric, the IASC/IASB borrowed its arguments about competence, independence and impartiality from the FASB. It merely transposed this rhetoric to the international level.

(5) For the IASC/IASB's new “constitution”, see www.iasb.org.uk.

(6) IFAC appoints five of the nineteen trustees, two of whom have to “normally be senior partners/executives from prominent accounting firms” – from the “big four”?

THE IASC/IASB'S RELATIONS WITH THE EU

The IASC/IASB's relations with Europe, first the EEC and then the EU, have always been rife with ambiguities.

Very ambiguous relations

Recall, from our brief history of the IASC, that it was created while Europe was setting out on a program for harmonizing member states' accounting regulations. Was this by chance? Some pundits do not think so. On the contrary, they believe that this creation, which the big accounting firms and the British profession wanted, was intended to counter the European initiative. However it failed to do so, since the directives adopted by the EU reflected a sort of legal compromise between the continental and Anglo-Saxon models. This explains the difficulties encountered by the IASC in the mid-1980s. It was losing – only temporarily, as time would tell – possibilities for applying its standards in EEC member states.

Fortunately for the IASC, the harmonization of accounting in Europe ran aground during the 1990s. National regulations stemming from the fourth and seventh directives became obsolete once confronted with the requirements of expanding capital markets. It was urgent to modernize them. As it turned out, this modernization could not be achieved quickly by using the unwieldy process of issuing directives. Some experts advocated setting up a European accounting standards board as a counterpart to the powerful American FASB. However the European Commission was more concerned with introducing a single currency than harmonizing bookkeeping practices; and it left time drift by. More and more European groups embraced either IASC or American standards. As a consequence, the IASC could present its standards as an alternative to American ones, propose its services to the European Commission, the EU's executive branch, and try to appropriate the power to set standards in the EU.

Europe outsources the setting of standards

In 2000, the European Commission responded to the IASC's proposals and drafted a new strategy for harmonizing accountancy. This redefined relationship with the IASC may well be described in terms of outsourcing. In a communication of 13 June 2000, the Commission recommended that firms listed in Europe apply IASC standards by 1 January 2005 at the latest. A European regulation of 19 July 2002 confirmed this strategy. IASC/IASB standards would not, it was understood, enter into application unless

they were in the EU's interests, a condition implying a procedure for approving them.

At the core of this approval procedure was a specially created Accounting Regulatory Committee, made up of representatives from EU member states. ARC, despite its name, is not a technical standard-setting agency but a political body – plans for setting up a European accounting standards board remained on the drawing board. Before deciding whether to accept or reject an IAS/IASB standard, the European Commission has to submit it to ARC, which formulates an opinion based on a qualified majority vote. If ARC approves the standard, the Commission adopts measures for applying it. To assess IASC/IASB standards, a committee of experts set up in June 2001 on an initiative from the private sector assists the Commission. Since this European Financial Reporting Advisory Group (EFRAG) oversees the drafting of standards for submission to the European Commission, it can intervene with the IASB whenever it deems fit.

This approval procedure was tested for the first time in July 2003. ARC was to give its opinion about the set of IASC/IASB standards that were to enter into application on 1 January 2005 in big firms listed in the EU. For the IASC/IASB, corporate accounts were to be declared in compliance with its standards only if all its standards were applied. The rejection of two out of the 32 proposed standards thus became a major obstacle to implementing IASC/IASB standards, whence the astonishment of business leaders and IASC board members. Why were the two standards rejected?

The rejection of standards 32 and 39: From the protests of banks and insurance companies to...

Standards 32 and 39 propose assessing financial instruments at their "fair value" (MISTRAL 2003). Invoking this notion is logical if the intent is to produce information for investors in line with the IASC/IASB's conceptual framework. However, applying the fair value criterion has many disadvantages and raises tricky technical problems. Practitioners and academics have abounded in writing about these handicaps (in French for example, CASTA & COLASSE 2001); but board members seemed to have ignored this literature.

The main disadvantage of fair value, when set by the market (thus presupposing existence), is its volatility, so extreme that the performance of firms as measured by accountants is highly unstable.

When not set by the market, it has to be calculated by using a model that might prove inadequate for several reasons. The underlying hypotheses might not be satisfactory. Implementation might be faulty. The



© Richard Cummins/CORBIS

“The main disadvantage of fair value, when set by the market (thus presupposing existence), is its volatility, so extreme that the performance of firms as measured by accountants is highly unstable” (The Enron Towers).

parameters might not be right. Or the model might not be sturdy or stable enough. Besides these involuntary causes, there might be other, voluntary, ones... Managers might be tempted to manipulate the model on their own behalf and practice a “creative accounting” with “high risks” for investors.⁽⁷⁾ Small varia-

tions of the parameters might cause significant variations in the value calculated.

The sectors the most sensitive to these disadvantages

(7) The US Senate report on Enron used the phrase “high-risk accounting” (for investors) to describe the firm’s bookkeeping practices.

were banking and insurance. Central banks reacted first: the Federal Reserve Board in April 2000 and the Basel Committee on Banking Supervision in May 2000. Their conclusions, though qualified, were clear. Standard 39 was not appropriate for bank balance sheets, and its application would impede supervision over this sector. The presidents of big European banks formulated a sharp but technical response. In a letter of November 2002, they strongly criticized the contents of standards 32 and 39.

In like manner, big European insurance companies voiced their opposition to the two standards. A peculiarity of insurance companies is that they cannot negotiate most of their liabilities (consisting of commitments made to clients) in the marketplace. Assessing the fair value would imply using models based on choices, in particular, about the discount rate. These very hard to make decisions would have a considerable impact on assessing liabilities. The IASC probably did not understand the peculiarities of this sector, which, in continental Europe, has kept (partly) out of the capital markets. France, for instance, has several mutual insurance companies.

Regardless of the technical points they raised, bankers and insurers were also objecting to the IASB's due process procedure for drawing up standards, which it had copied from the FASB, pointing out its limits and thus exposing its rhetoric. A point in the IASB's favor should be mentioned: EFRAG had not fully played the role expected of it.

The controversy that broke out took a political turn when the French president intervened, an intervention that drew public attention to the international harmonization of accounting practices. Till then, the discussion of this issue had been restricted to a small circle of specialists.

...Political reactions

On 4 July 2003, President Jacques Chirac sent a letter to Romano Prodi, the Italian president of the European Commission, to alert him that "Certain accounting standards now in the process of adoption in the European Union risk leading to an increased financing of our economy and to methods of corporate governance that put a premium on the short term."

For the first time, a top-ranking French politician intervened directly in a debate about accounting and thus brought it out of the professional circles where it had been confined. We assume that this intervention influenced, to a degree, ARC's decision of 16 July 2003. President Chirac's arguments were not technical. Instead, they placed the debate in the political arena. They had to do with corporate governance by investors (*i.e.*, capital markets) – a governance with

limits, as several affairs, starting with Enron, had shown.

The French president was criticizing not just IASB standards but, even more clearly, the Anglo-Saxon conceptual framework, from which they had been deduced, since it placed shareholders' interests above what legal experts call the public interest. This reaction, we notice (even if we cannot prove this relation), occurred in a time of tension between "old Europe" (8) and the United States about the war in Iraq. As it turned out, "old Europe" was advocating a different accounting model than the Anglo-Saxon one and had, belatedly, decided to defend it.

Organizational resilience

To summarize, the rejection of standards 32 and 39 by the EU's Accounting Regulatory Committee served as a litmus test for the problems and contradictions that afflicted the IASC/IASB (almost) since its creation but that it has always managed to overcome. As an international organization under private law, the IASC/IASB lacks any powers for enforcing the standards it sets. As a consequence, it has to constantly prove its legitimacy and look for support from more powerful organizations. It obtained backing, of various sorts, from IFAC, the IOSCO and EU. IFAC's endorsement expanded the potential field for applying IASC standards. IOSCO's legitimated the IASC in the eyes of capital markets, even though the SEC still did not recognize its standards. The EU's backing enabled it to indirectly wield power by having its standards enforced in Europe.

The IASC/IASB, drawing its legitimacy from the English-speaking world, has set standards for producing information for investors. As a "subcontractor" for the EU, it received powers of enforcement from a Europe that is divided between two models of governance with their associated bookkeeping systems, the "Anglo-Saxon shareholder model" and the "continental partnership model". Moreover, this accounts for the IASC/IASB's difficulty in fully satisfying EU requirements about the principal in a transaction. When put in relation with Chirac's intervention, the rejection of standards 32 and 39 signals the opposition by advocates of the continental model to a far different system.

However the IASC/IASB has always proven capable of skillfully handling the problems it encounters. It is, given its uncommon ability to survive, a quite special case of organizational resilience. We bet that it will very quickly amend the two standards in question. And on 17 December 2003, it did release new ver-

(8) Donald Rumsfeld used the phrase "old Europe" to refer to the European countries that opposed using force against Iraq.

sions of standards 32 and 39. At the time of publication of this article [March 2004], ARC had not yet pronounced its opinion on them. The IASC/IASB dare not indulge in a conflict with the EU, since this would likely postpone applying its standards in member states. Nor dare it risk a breach of relations, since its means of action are at stake. But afterwards?

Will the IASC/IASB go so far as to revise its conceptual framework and draw back from the American model, thus risking to disappoint the IOSCO and lose the possibility of having its standards recognized by American capital markets? Probably not. In fact, it is now working with the FASB(9). Might it not be secretly betting that, in the context of globalization, the Anglo-Saxon (specifically American) model will eventually win out over the continental one? Given the power of American money markets, such a bet is not senseless. Europe's inferiority in accounting also follows from the relative weakness of its capital markets (VÉRON 2003). Finally, the IASB might be hoping that the amendments to standards 32 and 39 will satisfy ARC and that it will not have to revise its conceptual framework.

The might of the weak

Given that the IASC/IASB will probably manage to overcome obstacles once again, we wonder what is the driving force behind an organization that winds its way in the midst of presumably much more powerful organizations. In other words, what is the might of the weak? What are the causes of this force?

Might it be the ability of manager to maneuver? Undoubtedly: IASC/IASB's successive chairmen have proven their mettle, and the current chairman is not the least pugnacious of the lot. Might it be the inertia of big, governmental or intergovernmental, bodies caught up in their own procedures (COHEN 2001)? The bureaucratic workings of the EU are probably not a negligible factor in the IASC/IASB's success. Or might it be the smoldering conflict between big international organizations that has opened strategic opportunities for it? In effect, the interests of the IOSCO and EU do not converge. Finally, might it be the EU's lack of ambition, visible in this field as in

(9) Under the Norwalk Agreement of October 2002, the IASB and FASB decided to coordinate future programs. In November 2002, they adopted a "short-term convergence" program for settling points of divergence between their standards. Naturally, all this increases Anglo-Saxon influence on the IASB.

many others, or its fear of internal conflict? By outsourcing the harmonization of accounting standards, it has more or less externalized a potential point of contention that could set France and Germany at odds with Great Britain.

The might of the weak is often grounded in the indecision or weakness of the strong, who mutually neutralize each other. This might well be what has made the IASC/IASB's resistible ascension so irresistible. ■

BIBLIOGRAPHY

- COHEN (E.), *L'Ordre économique mondial : Essai sur les autorités de régulation*, Paris, Fayard, 2001.
- CASTA (J.F.) & COLASSE (B.), *La juste valeur : enjeux techniques et politiques*, Paris, Economica, 2001.
- COLASSE (B.), "Harmonisation comptable internationale" in B. Colasse (ed.), *Encyclopédie de comptabilité, contrôle de gestion et audit*, Paris, Economica, pp. 757-769, 2000.
- COLASSE (B.), "Le défi de mondialisation comptable" in M. KALIKA (ed.), *Les Défis du management*, Rueil-Malmaison, Éditions Liaisons, pp. 139-150, 2002.
- HEEM (G.) & AONZO (P.), "La normalisation comptable internationale : ses acteurs, sa légitimité, ses enjeux", *Revue d'économie financière*, 71, pp. 33-61, 2003.
- MISTRAL (J.), "Rendre compte fidèlement de la réalité de l'entreprise" in J. MISTRAL, J.H. LORENZI & C. BOISSIEU (eds.), *Les Normes comptables et le monde post-Enron*, Paris, Documentation Française, pp.7-55, 2003.
- PEASNELL (K.V.), "The function of a conceptual framework for corporate financial reporting" in *Accounting and business research*, pp. 243-256, 1982.
- PERIER (F.), "L'organisation internationale des commissions de valeurs et le rôle des régulateurs boursiers dans l'internationalisation des marchés", *Revue d'économie financière*, 1995.
- VERON (N.), "Normalisation comptable internationale: une gouvernance en devenir" in J. MISTRAL, J.H. LORENZI & C. BOISSIEU (eds.), *Les Normes comptables et le monde post-Enron*, Paris, Documentation Française, pp. 123-132, 2003.
- WALLACE (R.S.), "Survival strategies of a global organization: The case of the International Accounting Standards Committee", *Accounting horizons*, June, pp. 1-22, 1990.
- WALTON (P.), *La Comptabilité anglo-saxonne*, Paris, La Découverte, 2001.
- ZEFF (Z.A.), "The rise of 'economic consequences'", *Journal of accountancy*, December, pp. 56-63, 1978.