An Analysis of the European Union Strategy for Setting Accounting Standards

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abstract

The purpose of this paper is to analyze changes in the European Union (EU) strategy for setting accounting standards and to interpret these changes at a theoretical level based on theories of international politics. To understand the meaning of the active and systematic EU involvement in IFRS (International Financial Reporting Standards), the background of the EU relinquishment, at least formally, of responsibility for setting accounting standards in favor of adopting IFRS needs to be analyzed. The necessity and effectiveness of this major change in strategy need to be considered from a historical perspective.

Based on the three formal documents published by the EU in the period of transition, discussion of the following points was extracted : ① whether or not it should give up its own standards, if it did give them up, ② which standards should it adopt, US GAAP or IFRS ?, ③ should the standards to be adopted be applied only to listed companies or to all companies and only to consolidated financial statements or to both consolidated and individual statements ?, ④ how to endorse the new standards in EU countries ? Concerning ①, the EU decided to give up setting its own accounting standards because even if it amends them in certain ways, the US would not accept them for the US capital market. Concerning ②, the EU decided to adopt IFRS because US GAAP was designed specifically for US Companies and US capital markets, and the EU had no influence on the US standards. Concerning ③, the EU decided to apply IFRS only to listed companies and to consolidated financial statements. Concerning ④, the EU needed to develop the endorsement mechanism for enforcing IFRS as the EU law, because it is set by the IASB, a private sector.

Based on the three documents, the purpose of the strategy for setting accounting standards has unchangeably been on keeping companies founded in the EU from being at a disadvantage because of its own accounting standards when raising capital in the global capital market

and to keep EU companies on an equal footing when raising capital. The three documents consistently emphasized the possibility of EU "influence" on the newly adopted accounting standards and the protection of the "public good" for EU companies and the EU capital market, which indicates that the EU has adopted the neo-realistic strategy of international politics.