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AUDITORS AS INTERMEDIARIES IN THE ENDOGENIZATION OF AN ACCOUNTING STANDARD: THE CASE OF IFRS 15 WITHIN THE TELECOM INDUSTRY

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1. Introduction

Regulation is about altering the behaviour of others according to predefined goals, which involves forming rules, monitoring compliance and correcting non-compliance through strategies of enforcement (Black, 2002). Yet, compliance assessment is far from straightforward. As pointed out in socio-legal studies, (Black, 1997; Braithwaite, 2002; Braithwaite and Braithwaite, 1995; Lange, 1999), the use of rules to control behaviour raises several problems: their inherent properties of imprecision and indeterminacy (Kaplow, 1999) make legal rules open to different possible interpretations (Picciotto, 2007). Both the regulators and the regulated enjoy discretion in devising the meaning of legal standards (Lange, 1999), which is eventually negotiated through their interactions (Picciotto, 2007), agreed-upon interpretations thus becoming enforceable. The rule's meaning may therefore be conceived of as a social construct, achieved by means of a "regulatory dialogue" (Braithwaite and Braithwaite, 1995) or, as Black (2002) puts it, of "regulatory conversations".

Turning to accounting regulation, in the aftermath of the Enron scandal, rules-based standards have been strongly criticized (SEC, 2003) for encouraging financial engineering that structures transactions "around" the rules (FASB, 2002) while principles-based standards such as IASB's promulgated IFRS¹ were viewed as less prone to manipulation. Some scholars, however, emphasize the fact that principles-based standards allow for more discretion in their implementation (Coffee, 2006). As they imply greater reliance on professional judgment (Bennett et al., 2006), principles-based standards may present both implementation and enforcement difficulties "because they provide little guidance or structure for exercising professional judgment by preparers and auditors" (SEC, 2003). Specifically, preparers may be tempted to exploit rule ambiguity to their advantage (Maines et al. 2003; Hail et al. 2010). To counter such bias towards self-interested interpretations of a standard, auditors' role as enforcers involves, first negotiating with preparers an interpretation which complies with the standard's underlying principles, and then enforcing the agreed-upon meaning of the standard to make it an authoritative meaning. We thus consider the emergence of an authoritative interpretation of a given standard in a particular setting to be the outcome of a social construction, and even more so under principles-based standards such as IFRS.

While most of the interpretive work performed by auditors occurs once the standard has been promulgated through the monitoring of its implementation, the social construction of a standard's shared meaning begins as early as drafting stage. At that stage, after gathering

¹ Whether IFRS are more principles-based than rules-based is a debated issue since, although the standards come in a principles-based format, they are supplemented by a substantial bulk of implementation guidance and interpretations. While the IASB has resisted providing the same level of detail that exists in the United States (Taub, 2014), more and more guidance has been added to IFRS over time, as evidenced by the growing number of pages of the printed version (Benston et al., 2006).

interested parties' views on the proposed draft through a due process and deliberating on suggested changes to the draft, the standard setter will eventually set the wording of the standard. It thus locks-in most of the standard's meaning by restricting the range of further possible interpretations to the margin left by standard ambiguity². Consequently, being effectively involved in the due process is critical for parties seeking to influence the standard.

The literature on due process has established that the accounting profession is the second most involved constituent after preparers (Giner and Arce, 2012; Jorissen et al., 2006; Tandy and Wilburn, 1996), although its influence on the outcomes of the standard-setting process remains unclear. IASB consultation procedures include both formal public consultations, such as invitations to comment exposure drafts and discussion papers, and more informal participation channels such as private discussions with the staff or Board members (Jorissen et al., 2012). Consequently, auditors, like other constituents, may rely on different channels to get involved in the IASB due process. Their participation actually takes two major forms: the writing of a comment letter, which formalizes the consensus within the firm about the new (or revised) standard and participation in different meetings with the IASB staff, board members and other constituents. These two participation channels are not mutually exclusive but are rather used concurrently by auditors. In this paper, we focus on the second channel by which auditors get involved in the IASB due process. Indeed, data accessibility constraints have so far confined research to the most visible part of the regulatory dialogue between standards-setter and constituents, through the study of comment letters to the IASB (Perry and Nölke, 2005), leaving other parts of the due process, such as outreach activities³, almost unexplored. Much remains to be understood, thus, about auditors and preparers' involvement in the due process, whether we consider its motives, its channels or its outcomes. Specifically, considering that most of rules' meaning is locked in at the end of the standard-setting process suggests envisioning auditors and preparers' participation in the IASB due process as a means to weigh on a standard's substance and wording at a stage where it is still possible to influence the standard's meaning. Broadly speaking, focusing on auditors' actions, our study investigates the way in which large accounting firms' auditors and their clients are jointly involved in the construction of IFRS authoritative meaning at standard's drafting stage.

To highlight auditors' role in this process, we combine the concepts of regulatory intermediaries (Abbott et al., 2017), hereafter RI, and legal endogeneity (Edelman et al., 1999; Edelman, 2002, 2005, 2007; Talesh, 2009). First, consistent with a top-down approach to regulation, a regulatory intermediary is conceptualized as "any actor that acts directly or indirectly in conjunction with a regulator to affect the behavior of a target" (Abbott et al., 2017, pp.17). Specifically, RI are portrayed as playing an important part in interpreting rules and as being involved in "the increasingly institutionalized processes of monitoring, verification, testing, auditing and certification" (Lévy-Faur and Starobin, 2014, p.21). These formally defined roles as translators⁴, implementers and enforcers pertain primarily to the downstream part of the

² To illustrate our point, we suggest resorting to a target costing metaphor. Indeed, in as just the same way as an estimated 80 to 95% of a product's total life costs is assumed to be locked-in by decisions made in the R&D and engineering cycle (Cooper and Slagmulder, 2004), so, we argue, is most of a rule's meaning set by wording decisions made at standard drafting stage. Decisions made at that stage are thus critical.

³ "The IASB gains insight on the likely effects of the proposals for new or revised Standards through its formal exposure of proposals and through its fieldwork, analysis and consultations with relevant parties through outreach activities" (IFRS Foundation, 2016, p.19).

⁴ see Bres et al., 2019

regulatory process (i.e once the rule has been adopted). Consistently, auditors are deemed typical RI (Levy-Faur and Starobin, 2014, p.22). In addition, the RIT model is, for the most part, predicated on “a rational choice model of decision-making based on incentives” (Gray and Pélisse, 2019), including choices as to how to influence rules. In this view, regulation is exogenous to targets and intermediaries even though it is open to their influence (Edelman and Talesh, 2011).

From this brief depiction, the RIT model may not seem best fitted to an investigation of bottom-up attempts at shaping rules, and more specifically still, one premised on a view of rule’s meaning as being socially constructed. Yet, as Abbott et al. (2017, p.17) note, “We frame the RIT model largely in rationalist terms, (...), but the model can accommodate sociological or constructivist considerations and nonmaterial goals as well”. Indeed, we primarily use the RIT model for its descriptive merit in depicting relationships between regulator, intermediaries and targets, yet we consider auditors (and targets) as agents able to take part in the construction and shaping of standards meaning. In other words, we do not consider standards as exogenous when referring to the RIT model and further provide an opportunity to explore the paradox of embedded agency “that is, the paradox of how actors enact changes to the context by which they, as actors, are shaped” (Greenwood and Suddaby, 2006, p.27).

Second, that law is not an exogenous, top-down phenomenon coming from formal legal institutions is an idea put forward by Edelman, arguing that law is rendered endogenous by “organizations [being] both responding to and constructing the law that regulates them” (Edelman et al., 1999, p. 407). The legal endogeneity theory is premised on a new institutional theoretical framework. It sees endogeneity as the result of a recursive process (Edelman et al., 2011) whereby the legal field influences organizations (i.e legalization of organizations), for example, as organizations create symbolic compliance structures to respond to the law, while the law tends to become infused with business logics (i.e managerialization of law). We suggest that this recursive endogenization process may be useful in making sense of interactions between auditors, preparers, and the IASB that result in shaping the meaning of a standard at drafting stage. As part of the Law and Society tradition, this framework is consistent with our general stance that rules meaning is a constructed phenomenon.

In this paper, drawing from the preceding insights on rule’s meaning as a social construct and auditors as intermediaries with agency to shape standards meaning, we investigate auditors’ support to their clients who attempt influencing a standard’s substance and wording as part of the IASB due process. In so doing, we extend the work by Young (1994) on the role and influence of different actors, such as auditors and preparers, in the standard setting process, emphasizing the interconnectedness of the standard setter with other actors. Specifically, our investigation is informed by the following questions: How and why do auditors (as RI) support their Telco clients in influencing the future meaning of an accounting standard at drafting stage? In which way and to which point is the draft standard endogenized by Telco firms and auditors’ joint efforts? To this end, we rely on a single case study mostly carried out in the office of one large accounting firm. More specifically, one of us (as main investigator) spent several months at the office of a Big Four firm between 2012 and 2013. During this period he was able to gather data about how auditors assisted their clients from the telecommunications industry (hereafter the Telcos) in shaping the content of the future IFRS 15 on revenue recognition⁵ (hereafter the RevRec

⁵ According to Young (1994, p.83), changes in financial accounting practices are commonly related to issues of recognition and “the processes underlying these types of accounting changes remain largely unexamined”.

project⁶). Placing emphasis on auditors (and audit firms), we proceed by analysing the content of regulatory conversations involving varying configurations (such as auditor-client, auditor-IASB, and auditor-IASB-client) around the RevRec project.

This paper contributes to the auditing literature in several ways. We first extend the literature on the IASB due process by shedding light on outreach activities, which had so far received scarce attention from scholars, a notable exception being Pelger (2016). In addition, conceptualising the due process as regulatory conversation allows us to depart from the dominant lobbying perspective taken by the literature by focusing on the content of interactions occurring as part of the due process rather than formal involvement in and tangible outcomes of lobbying. We thus extend and qualify findings from participation studies by showing that auditors and preparers share a common interest in participating in the IASB due process, i.e. to foster the emergence of an agreed-upon meaning of the standard. We also find that, although Telco firms fail to maintain their revenue recognition practices, their lobbying efforts, mediated by auditors, still allow them mitigating the downside effects of the revised standard on their operating costs. Second, by applying the RIT model to regulatory conversations between the IASB, auditors, and the telecom industry, we are able to highlight relations of cross-reliance between the three parties involved. Third, combining the RIT model with the legal endogeneity theory allows us to uncover an informal role taken by auditors as RI, i.e. as shepherds of an industry, steering its attempts at influencing a draft standard (organizing and coordinating the industry, shaping industry views on the draft standard, acting as go-between with the IASB). In so doing, we argue, auditors and their Telco clients are jointly involved in shaping the content and meaning of the draft IFRS 15 so that the accounting rule governing revenue recognition becomes partly endogenous to the very organizations it seeks to regulate. Further, our study complements existing literature on Big firms' role in standard-setting (e.g. Botzem, 2012; Pelger, 2016) in highlighting how auditors may influence a standard's content by mediating the R-T relationship in a due process setting.

The remainder of the paper is organized as follows: section 2 highlights the main impacts of the RevRec project on the Telcos, and provides a brief sketch of discussion sequences relating thereto. Section 3 reviews the literatures on regulatory conversations, regulatory intermediaries and legal endogeneity, on which we rely to address our research questions. Section 4 details the method used to collect and analyse our empirical data. Section 5 reports our results and summarizes the key findings of our study. Section 6 discusses these findings and concludes.

2. The Revenue Recognition project

Looking back at history, revenue recognition within the telecom industry has always been hotly debated (Moreaux and Encaoua, 1987; SEC, 2011). As IFRS entered into force in EU Member States in 2005, a widely shared transnational consensus emerged within the European Telecommunication Accounting Forum (ETAF). The group's work led to the emergence of an

⁶ The RevRec project, commenced in 2002, is a joint project between the IASB and the US Financial Accounting Standards Board (FASB). The first discussion paper was published in December 2008, and the first Exposure Draft was issued in June 2010. Subsequent to the comment period, the two Boards decided to re-expose the updated proposals. A second Exposure Draft was published in November 2011. Initially set at January 1, 2017, the effective date of IFRS 15 has been deferred by one year to January 1, 2018.

institutionalised accounting practice, inspired by US GAAP and already widespread within the sector, even before the implementation of IFRS.

For the telecom industry, one of the main difficulties with revenue recognition lies with bundled offers. These offers consist in providing a subsidised handset to a customer in exchange for a contractually defined minimum commitment period. In terms of revenue recognition, the accounting issue raised by this subsidized handset business model is twofold: on the one hand, the price must be allocated between the handset and the provision of wireless services; on the other hand, the costs of obtaining the contract, namely, the subsidy granted to the customer, has to be accounted for. Until the beginning of 2018, the vast majority of Telcos restricted the amount of revenue which they recorded in connection with the sale of a handset to the consideration received upfront, according to the "cash cap" (or contingent cap) method. This resulted in revenue recognition that was consistent with customer billings.

The RevRec project (which further became IFRS 15) introduces a significant change in the way bundled contracts are accounted for. It provides for an allocation of revenues between the handset and the provision of services based on the relative price of each item delivered separately (called stand-alone selling price). These two elements represent the selling entity's "performance obligations" to the customer. The turnover thus determined is recognized when the control of each element stipulated in the contract (handset and service provision) is transferred to the customer. As a result, most telecom operators have to allocate more revenue than under previous IAS 18 to subsidised handsets bundled with service contracts.

For Telcos, the new standard envisaged by the IASB and the FASB had several drawbacks, the main one being that applying the new standard would be complex and costly due to the high volume of contracts and to their disparities⁷. A significant modification of information systems would thus be required. Furthermore, estimating standalone selling prices of the handset and network service would require significant management judgment⁸, which could lead to reduced comparability of financial reporting between companies. Finally, key metrics currently monitored by financial information users (e.g. average revenue per user) would be less predictive of future earnings. According to the Telcos, applying the new standard would therefore have very serious consequences as regards operational implementation and financial communication, which led them to claim maintaining the cash cap method.

Anticipating resistance from Telco operators against the draft standard, field auditors fostered discussion between the industry (which they had previously helped to organize) and the IASB. While they knew from the beginning that industry position to stick to the cash cap method was extremely weak from a conceptual point of view, and the IASB would refrain from considering industry-specific options, auditors enticed Telco operators to voice their concerns about the draft standard to the IASB. Having successfully pushed for industry coordination, they strategically stayed at bay from negotiation and let the IASB staff engage in pedagogy with industry representatives, thus bringing the standard-setter itself to legitimize the new standard. Giving due consideration to Telco representatives' arguments, thus demonstrating its sensitivity

⁷ Implementing IFRS 15 involves following a five-step model as described in the standard: (1) Identify the contract; (2) Identify performance obligations; (3) Determine the transaction price; (4) Allocate the transaction price to the performance obligations; (5) Recognize revenue

⁸ When no observable price is available, which happens quite frequently, estimating a stand-alone selling price may be achieved using one of three possible approaches: adjusted market assessment; expected cost plus a margin; residual approach.

to industry concerns, the IASB subsequently rebutted them for contradicting accrual accounting principles set in its conceptual framework. Telcos then could not help but admit that the cash cap method had to be abandoned.

Once Telco operators became resigned to give up the cash cap method, negotiations with the IASB moved on to tackle implementation issues, which had to be settled for the telecom industry to accept the revised standard. Auditors therefore suggested the portfolio approach to the IASB as a practical expedient intended to alleviate standard implementation costs. The portfolio approach allows Telco operators to group similar contracts, under conditions, thus (at least on paper) substantially simplifying revenue recognition from bundled offers. Finally, the portfolio approach having gained approval from both the industry and the IASB, auditors followed-up on previous discussions between the two parties to make sure that agreed-upon solutions to the costly implementation of the standard would translate in its final draft.

3. Auditing and the endogenization of accounting standards

Drawing from socio-legal studies on the socially constructed nature of rules' meaning, our study uses the concepts of regulatory conversations, regulatory intermediary and legal endogeneity to analyse auditors' input into the endogenization of accounting rules.

3.1 The IASB due process as a formalized regulatory conversation

Contemplating the audit process as one that allows the construction of standards' meaning by auditors and auditees through their interactions, fits neatly with what is captured by the term regulatory conversations. Defined as "the communicative interactions that occur between all involved in the regulatory 'space'", the concept of regulatory conversations works as a metaphor for "all forms of interpersonal communications", including but not limited to "micro-level conversations" (Black, 2002, p. 163), which focus on the meaning and operation of rules (Black, 1997). Regulatory conversations operate a coordinating function by allowing a shared understanding of rules to emerge, which will provide a basis for action. Black (2002) insists that a precondition for regulatory conversations to fulfil their coordinating function is the creation of interpretive communities for the interpretation of both written norms and practices. At stake within these communities is the location of interpretive control, which may lie in the possession of knowledge, thus placing experts in a favourable position to control the meaning of rules.

Regulatory conversations may occur in different occasions, such as rule implementation requiring guidance on interpretation in context, or breach of a rule, involving a negotiation of rule enforcement (Black, 1998). Importantly, regulatory conversations are not confined to dealing with existing rules but may also encompass interactions aimed at revising current rules or formulating new rules. As noted by Picciotto, (2007, p. 2), "This opens a further perspective, that norms may be generated and derive their meaning through the interactions of all those involved in a social field". This view is consistent with the legal endogeneity theory.

Surprisingly, to our knowledge, the notion of regulatory conversation has not yet been used in the accounting research literature, although it seems well suited to the analysis of accounting regulation as a deliberative process. We thus suggest conceptualizing the IASB due process as a regulatory conversation offering constituents the opportunity to react to a draft standard and

exchange views with the standards setter, especially in little formal settings such as outreach activities.

According to Black (2002), when referring to the concept of regulatory conversations, it is important to disaggregate the regulatory process in order to specify at which point, between whom, and about what the regulatory conversation takes place. Following this recommendation, we first consider the IASB due process as providing an organizational arrangement for regulatory conversations to take place at the initial step of the accounting regulation process. We then identify constituents participating in the IASB due process as being engaged in regulatory conversations with the standards-setter. The *IFRS Due Process Handbook* (IFRS Foundation, 2016), mentions “full and fair consultation” as being one of the three principles founding its consultative procedures⁹, which aim at gathering the feed-back from “interested and affected parties”. Comment letters allegedly “play a pivotal role in the deliberation process of the IASB”. As it provides public answers to a formal consultation, research investigating the standard-setting process has been primarily relying on this material (Camfferman and Zeff, 2017). This research has established that preparers are the most active constituents, followed by accounting firms and standard setters (Dobler and Knospe, 2016; Georgiou, 2002; Giner and Arce, 2012; Jorissen et al., 2012; Kwok and Sharp, 2005). However, the due process extends far beyond written interaction between the IASB and constituents to include other formal modes of consultation, such as establishing consultative groups, holding public hearings, and undertaking fieldwork as well as less formal, private meetings with board or staff members (Orens et al., 2011). Specifically, our focus will be on outreach activities involving IASB staff members, the Telcos and their auditors.

Finally, Black (2002, p. 170) mentions that “regulators may operate at a transnational, supranational, national or sub-national level”. As regards the IASB, it is a private non-profit organization operating at a transnational level to set *de facto* global standards (Botzem, 2014). According to the *Due Process Handbook*, consultative procedures aim at gaining “a better understanding of different accounting alternatives and the potential effect of the proposals on affected parties” (IFRS Foundation, 2016, section 1.2). Contrasting with regulatory conversations occurring after a new rule has been released, whose purpose is primarily to interpret the rule for implementation, consultative procedures for standard-setting deal with the wording of a new or revised standard. Its expected impact on preparers’ accounting figures may direct discussions towards opposing the chosen accounting treatment or preserving existing practices, as documented by empirical studies of preparers’ lobbying towards the IASB (Cortese et al., 2010; Giner and Arce, 2012). Concerns as to practical implementation and enforcement of the standard may also arise. At stake here are issues of cost-effective implementation and auditability.

3.2 Auditors as intermediaries in the social construction of a shared standard meaning

Political science and international relations scholars, have rightly characterized transnational regulatory regimes as fragmented (Scott, 2001), hybrid (Levi-Faur, 2011), and polycentric (Black, 2008), thus pointing to multiple sites of regulation located whether at sub-national, national or transnational level, and involving both public and private actors, none of whom retains full control of the regulatory process. Against this multi-stakeholder governance background, Abbott et al. (2017) develop a general model of a regulatory system, termed the RIT

⁹ The two other principles are “transparency” and “accountability”.

model, emphasizing the mediating function performed by RI between regulators and targets. The rationale behind regulatory intermediation lies in regulators (R) and targets (T) both lacking regulatory capacities that intermediaries (I) possess, especially as regulation is being rescaled from the domestic to the transnational level. Abbott et al. (2017) identify four non-exhaustive broad categories of capacities that intermediaries may bring to regulation: operational capacity, expertise, independence (from both the regulator and target) and legitimacy. Regulatory enrolment thus appears as a means to harness the effectiveness and legitimacy of some actors in ensuring regulatory outcomes (Verbruggen, 2016). While the RIT model, as a theoretical model, is useful for understanding the overall relationships between the three main actors considered clearly distinct from one another, Abbott et al. (2017, p.25) note that “the distinctions between actors may blur in practice”. For example, RI may take on a rule-setting role or intermediary and target roles may overlap. Such blurring of role boundaries may be found in audit research on transnational accounting regulation. Some studies highlight how Big Four are involved in IASB expertise-based standardization through membership of IASB decision-making bodies (Perry and Nölke, 2005), the provision of critical funding and secondments to its senior staff (Botzem, 2012, 2014; Herman, 2020), the latter, Pelger (2016) shows, being in a crucial position to influence board debates. As testimony to the ambiguous boundaries of intermediary and target roles, Aburous (2019) provides evidence that some large firms assume financial reporting activities on behalf of their clients to facilitate IFRS implementation. While a shortage of IFRS expertise at clients’ may explain this finding in the Jordan context, one may still recall that the onset of IFRS provided large firms with ample opportunities for advisory services in adopting countries.

Regarding accounting regulation, some features exhibited by large accounting firms such as their organization as globally operating networks of locally embedded firms (Barrett et al., 2005) and their sophisticated management of expertise place them in a privileged position for mediating between the IASB and preparers. Specifically, capitalizing on field auditors’ accumulated experience of local accounting practices, large audit firms’ in-house consultation network operates as a repository of IFRS expertise, providing support to field auditors and ensuring that IFRS interpretation is coordinated at the global level¹⁰ (Tokar, 2005). With regard to the regulatory process as described by Abbott & Snidal (2009)¹¹, in-house consultation networks perform their audit coordination function in different ways depending on the stage of the regulatory process. At standard-setting stage, they are responsible for producing one single comment letter in response to IASB proposals, conveying the agreed-upon view of the subject within the entire network of member firms (Tokar, 2005, p.705). Post-adoption, their main coordinating function is one of interpretive control (Black, 2017) over the day-to-day implementation of IFRS, in such way as to build a shared understanding of IFRS within the network’s firms (Tokar, 2005, p.698). In the firm which we observed, IFRS expertise is distributed among national Professional Practice Functions (PPF), whose work is then coordinated by a global PPF. Being located in London, global PPF members enjoy easy access to Cannon Street¹², thus getting the opportunity to informally exchange views with IASB staff and

¹⁰ As such, the setting-up of global in-house consultation networks by large audit firms is consistent with a trend towards globalization of audit coordination processes as documented by Barrett et al. (2005).

¹¹ According to Abbott & Snidal (2009), “the regulatory process comprises five main stages: placing an issue on the regulatory agenda (Agenda-setting), negotiating, drafting and promulgating regulatory standards (Negotiation), implementing standards within the operations of firms or other targets of regulation (Implementation), monitoring compliance (Monitoring), and promoting compliance and responding to non-compliance (Enforcement).

¹² IASB location in London.

Board members. Overall, large accounting firms arguably provide highly valuable regulatory capacities to both the IASB and targets through the coordinating function performed by their in-house consultation network aimed at avoiding divergence in IFRS interpretation.

Indeed, it is worth recalling that, promoting the use of a uniform set of accounting standards, the IASB conveys the promise of enhanced financial statements comparability (Durocher and Gendron, 2011) and thus, more efficient allocation of capital across borders. Holding such a promise is critical for the IASB, as a private transnational standard-setter struggling to establish its legitimacy (Botzem, 2014; Richardson and Eberlein, 2011). Comparability is expected to stem from the even implementation of IFRS at a transnational level, a stringent condition given the leeway in standards' interpretation and the weight of local economic and political forces on financial reporting practice (Zeff, 2007). For the purposes of our study, we resort to the RIT model to position the main actors of transnational accounting regulation each against the other. We develop an enriched model (Abbott et al., 2017; Havinga and Verbruggen, 2017) which allows us integrating two kinds of intermediaries among auditors by differentiating between technical experts belonging to the PPF and field auditors. Although we are aware that transnational accounting regulation involves multiple regulators at different levels (such as national standards setters and market regulators in addition to the IASB), we choose to focus on the IASB as the R pole of our model. In so doing, we aim to make sense of the nexus of relationships linking the IASB, Big Four firms' auditors, and the latter's clients.

Intermediaries may perform a variety of functions depending upon which stage of the process they are involved in. Although Abbott et al. (2017) focus on the post-adoption period, thus pointing to RI role as translators, implementers and enforcers of rules, they acknowledge the potential of the RIT model to accommodate a dynamic rule-making process. Specifically, whether directly (from T to R) or indirectly (from T to R through I), Abbott et al. (2017) argue, post-adoption feedback processes are essential to understanding the development of regulation over time. This is consistent with Black et al. (2007), who argue that for the regulatory process to work properly, the standard-setter should be able to benefit from inputs emanating from the field. By incorporating feedback from intermediaries (and targets) into their model, Abbott et al. (2017) remove the implicit assumption that rules result from a unidirectional top-down process and allow the RIT model to accommodate a co-construction process, thus making it especially fit for our study.

Such modelization, therefore, is consistent with the legal endogeneity theory, according to which "law acquires its meaning from (and thus becomes in part endogenous to) the social arena that it seeks to regulate" (Edelman et al., 2011, p.890). While this phrasing establishes a direct link between the social construction of law meaning and the endogenization of law, since the former process involves the very organizational fields that law targets, it is important to note that law is never completely endogenous to organizational fields. This occurs "because legal actors also take into account constitutions, the intent of legislators, the meaning of legal texts, and other sources that are relatively internal to the legal system" (p.890). Transposed into the field of accounting regulation, this statement implies that an internal reference to the IASB such as the conceptual framework might work as a potential barrier to the endogenization of IFRS.

As pointed out by Edelman et al. (2011), the lobbying and capture approaches too, have considered upward attempts at influencing law. Yet, their own approach, they contend, extends

rather than contradicts such previous work by suggesting another, subtler path¹³ through which organizations influence law, namely the managerialization of law. With this wording, Edelman et al. (2011, p. 892) draw on new institutional organization theory in suggesting “that organizational practices that become institutionalized within organizational fields tend to influence the thinking of legal actors”. As a result, “legal institutions become increasingly likely to associate those structures with legal compliance” (p.890). The process described is actually of a recursive nature and it involves the professions¹⁴, making it particularly suitable for a study of auditors’ role in the endogenization of an accounting standard. Edelman et al. (1999, p.406) describe the endogenization process in the following way: “the professions promote a particular compliance strategy, organizations adopt this strategy to reduce costs and symbolize compliance, and courts adjust judicial constructions of fairness to include these emerging organizational practices”.

While the above account depicts a recursive process whereby legalization of organizations is followed by managerialization of law once law has been adopted, we suggest that the endogenization of an accounting standard might begin pre-adoption, as early as standard-setting stage, likewise involving auditors’ support. Helping their clients to anticipate the practical impact the draft standard might have on their operations, auditors advocate solutions to implementation problems that clients subsequently promote in their discussions with the IASB. Depending on whether preparers’ advocated solutions are included in the final draft standard or not, varying degrees of endogenization may be observed. Not retaining a solution may stem from the fact that it does not comply with the IASB conceptual framework or key underlying principles.

Edelman and other scholars provide empirical evidence of the endogenization of law, post adoption (Edelman et al., 1999; Edelman, 2016; Dobbin, 2009), most of them pertaining to labor and employment law (Talesh and Pelisse, 2019). As for upstream stages, we still miss empirical evidence of such phenomenon, Bozanic et al. (2012) being a notable exception with their study of the endogenization of the Securities and Exchange Commission’s (SEC) regulation on insider trading. Providing descriptive evidence that these regulations “were effectively and iteratively influenced by those regulated in multiple waves” (p. 474), they show that this influence follows various paths such as strategically exploiting ambiguity in the existing rule before courts and suggesting modifications to the proposed revised rule through comment letters, which would provide them with greater discretion. In addition, Talesh and Péglise (2019, p.117), note that “Whereas existing studies on intermediaries examine how intermediaries monitor, verify, or certify legal rules (Abbott et al., 2017), they have rarely examined the processes and mechanisms through which intermediaries *shape the meaning of law*¹⁵ itself (...)”. In combining the RIT model with the legal endogeneity framework to explore processes by which a standard meaning is shaped by intermediaries and targets before its adoption, we aim to contribute filling such gap.

¹³ According to Edelman et al. (2011, p.892) elaborating on regulatory dynamics, legal endogeneity differs from lobbying or capture by being “more invisible than the more overt efforts at reform (like lobbying or capture) that are typically studied”. However, in this study, rather than considering legal endogenization and lobbying as two of several available tactics to influence the content of a standard, we see lobbying as the process of attempting to influence the standard-setter (e.g. through comment letters, informal dialogue, etc.) while endogenization of the standard (which may vary in degree) expresses the outcome of the lobbying process.

¹⁴ In Edelman et al. (1999), the professions involved in the endogenization of law are the legal and personnel professions as their work relies on a case study of equal employment opportunity (EEO) practices by organizations responding to EEO law.

¹⁵ Our emphasis

4. Methodology

Contrary to what might be suggested by the term “regulatory conversations”, relying on the theoretical framework developed by Black for the study of a regulatory process extends far beyond performing a mere conversational analysis: “Thus merely to adopt the techniques of conversational analysis, for example, will not tell us much about the operation of the regulatory process as a whole [...]” (Black, 2002, p. 173). Black suggests approaching the regulatory process from a holistic point of view, by analysing all communications between: “regulators, regulated and others involved in the regulatory process concerning the operation of that regulatory system”. She thus invites researchers to consider “all forms of interpersonal communications, extending beyond standards, policy documents, and guidance notes to include all micro-level conversations that may occur in formal or informal settings, including policy briefings, seminars, and conferences, in the course of the regulatory process between individuals both within and across organizations or particular cohesive communities.” (Black, 2002, p. 171).

Appropriately implementing this theoretical framework therefore requires accessing a particularly deep and wide range of information. To this end, performing a single case study seemed best suited to allow sufficiently focused substantive work to provide an insightful depiction. Yin (2009, p. 52) mentions different phenomena that can be captured through a unique case study. Among them, the "revelatory case" refers to the possibility for a researcher “to observe and analyse a phenomenon previously inaccessible to scientific investigation”, which seems to be our case.

4.1. Data collection

This in-depth work led us to diversify as far as possible the panel of actors we interviewed and to lengthen the investigation period, with interviews spread over a period of more than three years. This long timeframe allows us to capture changes in the different positions and to gain a better understanding of the issues at stake and the forces involved in the process.

Implementing a case study is a major challenge, given the amount of data to be gathered to build a case suitable for research. To achieve this, we have shown opportunism as suggested by Alvesson and Sandberg (2013) who invite researchers to take advantage of opportunities which are offered to them. As far as we are concerned, following this advice meant seizing the opportunity to benefit from a privileged access to data, given that our purpose was to select a case which would epitomize the social construction process of standard-setting. Two practical conditions had to be met for the case to be eligible for our research: we needed to be able, first to trace and second, interview the largest possible number of actors who had been involved in the process.

First of all, we would like to specify the broader context surrounding this work. The present study draws on data from a broader field study. One of us spent several months at the PPF of a large audit firm as non-participating observer¹⁶. The whole project was aimed at investigating the social construction of IFRS compliance, involving the IASB, auditors, and preparers, a notable

¹⁶ Field observations were carried out in two main stages, as follows:

- In 2012: Observation at the Big Four PPF (four months).
- In 2013: Observation at the Big Four PPF (Six months, two days a week).

To illustrate, during these periods 79H46 minutes of interviews were conducted.

part of which focusing on the construction process that occurs at standard-setting stage as part of the due process. The significant amount of time spent within the PPF has enabled us to gain an overall view of the firm's backstage operations, especially from the PPF's point of view. This remarkable opportunity to access a field, which most of the time remains hidden from researchers, also provided us with the opportunity for a decisive meeting with an audit field partner who was also co-responsible for the firm's worldwide telecom sector group. This partner shared with us his experience of the RevRec due process alongside his main Telco client. He enabled us to get in touch with his client, whom we could interview three times about the evolution of the RevRec project. We were also able to contact the second partner, co-responsible for the firm's worldwide telecom sector group, who had close links with the global PPF. In addition, we interviewed one Board member of the IASB and two members of the IASB staff.

The first telecom operator we met helped us to contact other executives responsible for accounting standards in global telecom companies (cf. Table 1). Several experts from the local and global PPF also took the time to answer our questions in detail. We thus had access to a broad array of interviewees, from a variety of professional (3 different professions) and geographical backgrounds (4 nationalities). Given the transnational nature of IFRS, this diversity contributes to enhancing the adequacy of our data.

As regards the part of our work specifically dedicated to studying the Telcos' involvement in the due process, we conducted 22 semi-directive interviews with 16 different persons, all of which were recorded and subsequently transcribed¹⁷. For the purpose of these interviews, we drafted a questionnaire, which we incrementally updated based on the results of past interviews. Our first interviews were highly exploratory in nature, with general questions allowing actors to describe their involvement in the due process. These initial interviews helped us to identify the key concerns of the telecom industry, and to begin to understand the operational approach adopted by the main players. As the interviews unfolded, we refined our questionnaire. This was partly to keep pace with the development of our knowledge on the subject; for example, once we were familiar with the technical considerations at play, we were able to skip through this section rapidly in order to focus on issues we felt to be more fundamental. Updating the interview process also allowed us to triangulate different points of view and corroborate certain information. This process of "cross-comparison" enabled us to establish a sort of indirect dialogue between the various protagonists from our case study.

[Insert Table 1 around here]

In addition to these interviews, we used the highly detailed minutes of the IASB Board meetings provided by *IFRS Monitor*, a private organization. Although not strictly official, these minutes are regarded as reliable proxies for the Board's deliberations (Camfferman and Zeff, 2017; Walton, 2009). These minutes allowed us to corroborate some statements made by IASB members whom we interviewed, and provided invaluable information on the content of the debates, which occurred during Board meetings where the telecom industry case was discussed. We also supplemented our material using documents issued throughout the due process:

¹⁷ We have translated all interviews conducted in a language other than English.

documents released by the IASB or its staff and comment letters written by auditing firms (13 comment letters) and telecom operators (30 comment letters).

4.2. Data analysis

All interviews were fully recorded and transcribed. These transcripts were analysed using NVivo, which we found especially useful for comparative purposes. Specifically, we first engaged in a “disintegration” step to convert the massive volume of data we gathered into “units of meaning” (Deschenaux, 2007, p. 10). This was carried out through first-level coding, in which we sought to identify the most important themes that were emerging from the data. We decided to focus our coding efforts on two specific subjects: (i) actions taken by each category of actors and (ii) their interactions with other actors. Our coding was at once deductive and inductive: deductive because we were on the lookout for actions and interactions, and inductive because we observed the emergence of sub-themes within these two main categories. We thus identified the following sub-themes: “Meetings and contact with the IASB,” “Structuring the work of the Telcos,” “Inciting the involvement of Telcos.”

The due process documents were also analysed using NVivo. They include: the 43 comment letters already mentioned, the 2008 Discussion Paper (DP), the first exposure draft published in June 2010 (ED1), the second exposure draft released in November 2011 (ED2), the staff paper issued in June 2011 and the final IFRS 15. Our coding was mainly intended to obtain a classification of the arguments used by Telcos and auditors (regarding the telcos sector only) including: the identification of issues raised by the draft standard (such as loss of relevance of financial communication, implementation costs, unavailability of information in systems ...) and the major points of disagreement mentioned in their comment letters (on the information to be disclosed, on the recognition of client risk...). We have also classified all the solutions suggested in the letters by auditors and Telcos (the portfolio approach, maintaining the cash cap, residual approach...).

As per Miles and Huberman (2007), this level-one coding consisted of aggregating information around major themes to make data more accessible. This initial analysis enabled us to organize and structure data, from a descriptive, longitudinal perspective. We then produced a narrative synthesis, which allowed us to identify the most prominent themes ensuing from the investigation and how they might relate to one another in producing a coherent storyline.

Once we had established this basis, we proceeded with manual, level-two coding in order to structure the sorted data and to follow Blacks instructions: “In understanding the role played by regulatory conversations it is important to disaggregate the regulatory process and to identify at which points regulatory conversations occur, between whom, and about what.”(Black, 2002, p. 171). Introducing the theoretical framework helped us to put the data into perspective. We then conducted a final, manual comparison during the writing process, once our empirical framework was clearly established.

5. Auditors as intermediaries in the construction of a shared standard meaning

In this section, we report auditors’ involvement as intermediaries in regulatory conversations between the telecom industry and IASB around the revision of accounting rules pertaining to revenue recognition. First of all, we identified ways in which auditors mediate the

regulator-targets relationship and potential motivations for such engagement. We additionally show that auditors' involvement, coordinated through industry specialist groups set up within the audit firm, fostered the emergence of a shared meaning of the revised standard between the global telecom industry and the IASB. This finding suggests that the standard might have become endogenous through the process.

5.1. How and why do auditors act as intermediaries in Telcos' engagement with the IASB?

We first show how auditors foster connections between the telecom industry and the standard-setter in a coordinated fashion. We then analyze why, for field auditors, auditability remains the main concern highlighted during the various discussions.

5.1.1. Supporting industry coordination and fostering discussions with the IASB

In this section, we provide an analysis of auditors' role as intermediaries in regulatory conversations between the IASB (R) and the Telcos (T), surrounding the RevRec project. More precisely, we investigate the way in which auditors fostered the telecom industry's participation in the IASB due process.

In the first place, auditors, and more specifically PPF members who have an in-depth knowledge of the IASB due process, urged the industry to speak with one voice. A global PPF interviewee explains that the field signing partners have played a key role in:

“ensuring that [PPF members] could engage with the telecom companies. And get them together to talk about what they preferred as a sector. So that they spoke with one voice to the Board. Because if you speak, you know, with ten different views, the Board won't listen to each view [...] because they want consistency in the industry” (A5)

To achieve this result, auditors carried out an important horizontal coordination work. In other words, they played an intermediary role within the telecom industry, with a view to gathering leading operators around accounting issues. The process of industry coordination was initiated in 2001 before the emergence of the RevRec project, and even before the first implementation of IFRS in Europe, in order to share best accounting practices. Indeed, this coordination process was facilitated by the inception of an informal European Telecom Accounting Forum (ETAF)¹⁸, led by one Big Four. From 2001 onwards, supporting the operation of this informal forum, auditors have ensured that representatives of major telecommunication operators could meet and share views on accounting practices. Being solely European in the first place, this forum came to include non-European members notably thanks to the intermediary role played by auditors. The ETAF creation exemplifies auditors' role as RI in the establishment of connections between the various stakeholders¹⁹. These links lead to the organization of events,

¹⁸ Operators have taken over the management of this forum since 2005, in the meeting of which auditors regularly participate while IASB (staff and/or Board members) are also invited from time to time.

¹⁹ Interestingly, no evidence of European institution-building seems to have been at play in the ETAF creation, leaving private actors the initiative to share and coordinate their views on accounting issues through a dedicated informal forum.

meetings, where conversations take place and foster the emergence of a shared understanding of standards. By fostering industry coordination, auditors supported both the telecom industry and the IASB. Indeed, the standard-setter seems more receptive to an industry trying to discuss in a coordinated way, as acknowledged by this Board member:

“it is always difficult to give attention to an individual answer... If it is a collective answer, it is easier to give it the attention it deserves” (I2)

From the early stages of the RevRec project, just after the release of the discussion paper, European telecom operators used to share their views within the ETAF. Having supported the emergence of the ETAF, auditors then built on its existence to convince preparers to be deeply involved in the due process, as explained by a Telco audit partner:

“[...] So what we thought was important is that our clients understood what the IASB was intending to do with their standard, [...] We reminded them ‘this is what you are going to have to do, and if you don’t want to do it, or if you think there is a better way of doing it, you should probably submit a comment letter to the Board or meet with them to explain your views, your position, and discuss alternatives’ ” (A8)

It seems critical for auditors or for standard-setters to convince preparers to get involved in the due process if they do not take the initiative to do so by themselves. It would certainly be more difficult for auditors to foster the emergence of a common interpretation of the new standard if their clients had not participated in the standard-setting process.

Even after the main discussions were completed, auditors’ capabilities still proved valuable as, for instance, they facilitated follow-up activities with the IASB staff. As the auditing firm’s global PPF is located in London, its members may take advantage of their geographical proximity to remain connected with the IASB staff all along the standard-setting process. A global PPF member explains how they followed up on previous meetings to make sure that ideas put forward, and which reached consensus, were actually incorporated in the final version of the standard:

“[...] to help make sure that whatever they talked about during those meetings, whatever they thought might work, that we could then work with the staff on the drafting and help them understand the challenges” (A5)

Beyond these coordination and networking activities, auditors also helped to enhance the “quality” of the dialogue between R and T. In this context, being able to benefit from auditors’ expertise in accounting standard-setting has proved very helpful both for the standard setter and for preparers.

From the IASB point of view, auditors’ expertise stems from an in-depth knowledge of targets’ behavior and local conditions coupled with an extensive expertise in accounting standards’ implementation. Auditors are exposed to a great variety of concrete applications of IFRS, which enables them to build a practical expertise that the IASB does not have.

Auditors’ expertise is also valuable to their clients. Even if most Telcos we interviewed already had a good knowledge of the RevRec project, auditors provided assistance in assessing the correct anticipation of the impacts of the standard and participated in the reflection on further developments of the project:

“I think our incremental value of being on board, compared to operators who would go alone to the IASB is [...], we interact closely with the IASB and we follow projects very closely, we will have more history of the project compared to representatives of sectors who cannot follow as closely as we do”. (A8)

Beyond their technical expertise, auditors have strong communication skills and share a common intellectual background with the standard-setter, which has been very useful to preparers. Auditors are indeed particularly familiar with the IASB operating process; they are used to discussing with the IASB and know which argumentation may be impactful. In the RevRec case, auditors have played a pivotal role in helping Telcos to be prepared to meetings with the staff and Board members where they set out the sector’s position. One telecom operator we interviewed reported how a particularly important meeting, which brought together industry members, auditors, and the IASB (Staff and Board members) was prepared by the industry in collaboration with auditors:

“in advance of that [meeting] there were discussions among peers [...] and in all this, the Big Four firms, they took part, and of course they also advised on what they thought might be the best way to present it, whether a certain argumentation, whether they thought it would not be beneficial to make that kind of argumentation.” (T2)

Auditors’ expertise as a key resource for Telcos and for the IASB is also enhanced by the specific organization of auditing firms, based on a distinction between field audit teams and PPF teams. Field audit teams work alongside Telcos on a daily basis. They thus have mastery of both the specificities of the sector (the business line) and the accounting framework as applied by the sector. The PPF team has a broader technical expertise, and is fully familiar with the IASB's operating procedures. In the audit firms’ backstage, the collaboration between field auditors and PPF members thus strengthens the relevance of the assistance provided by the former to their Telco clients. However, auditors’ interests within the firm are not always as aligned as they may appear. This raises the question of the objectives that each party pursues when participating in this process.

5.1.2. Focusing on auditability issues: a way to overcome conflicting interests

Because of the different missions they exercise within the audit firm, field auditors and PPF members do not take the same approach to the draft standard. The following summarizes the key tension that these two categories of actors have to manage. On the one hand, PPF members felt it an ill-founded and losing battle to justify the maintenance of the cash cap from a conceptual point of view. On the other hand, the cash cap method had historically been common practice among the telecom industry, and from field auditors’ point of view, it was certainly easier to audit, as explained by a global PPF member:

“I agree that it is probably the easiest for an auditor, and it is well understood in the industry. The problem is that, for this project, the IASB wants guidance that applies to all industries, all entities, the cash cap method does not work in all industries. And conceptually, why cash should drive accounting is not clear when we apply accrual accounting.” (A5)

In its formal communication, the audit firm aims to display technical legitimacy and neutrality qualities, avoiding acting as advocates of the telecom industry. From a more general

point of view, audit firms cannot publicly support clients' positions that obviously contradict principles on which the draft standard is grounded. This may even have led to some tension with the auditees. One telecom operator regrets that auditors did not take the full measure of the problems generated by the RevRec project for the financial communication of Telcos:

“They have absolutely no interest in the comparability of financial statements. They have no interest whatsoever in what users think [...] They have no idea what a dialogue between management and its investors is like”. (T1)

When asked about the dissatisfaction shown by this client, a PPF member explains that it is indicative of an expectation gap with regard to auditor's role:

“I think there's a little gap between what he would have liked the auditors to do and what the auditors see as their responsibility... I think what might have been interesting was to get him to admit that what he was expecting from us was to lobby for him, and is that really auditor's job?” (A10)

However, by remaining focused on auditing issues, the field auditors managed to find a "neutral ground" likely to satisfy Telcos, the standard-setter and the PPF teams at the same time. Indeed, members of the PPF would have found it difficult to support the maintenance of the cash cap. In order to avoid conflicting messages being sent from within the same firm and being at odds with the official position of the firm, comments made by field auditors during meetings are restricted to auditing issues stemming from implementation projections of the new standard as compared with current practice. Their argument is thus based on allegedly tangible and unquestionable facts. More precisely, one field auditor reports how auditors who attended the meetings between their clients and the IASB managed to support the telecom industry position while exclusively focusing on auditing issues:

“During these outreach sessions [with the IASB] we talked about application issues [...] the assumptions that would be required [...] that we will have to audit these assumptions and that it's going to be challenging. [...] it was always the starting point when we met the Board and the staff, we reminded them of how difficult it might be to audit these hypotheses”. (A8)

In so doing, auditors contribute to legitimizing the telecom industry viewpoint without contradicting the audit firm's official position.

Attending these meetings and sharing their experience of auditability matters also allowed auditors to listen carefully to the standard-setter's answers, a critical issue since these answers would set the base for the future implementation of the standard. However, from the standard-setter's point of view, auditors and preparers should stick to a strict segregation of their respective roles. As the Board member suggests, auditors should merely be:

“Listening to the dialogue and making their own opinion, confirming or infirming their opinion [...]. But they should not be the company's advocates, even if sometimes some of them behave as advocates but this a professional misconduct.” (I2)

Taken together, our observations show that auditors play a key role as intermediaries, actually more complex and subtler than what has been highlighted by the literature on due process so far. An important motivation for fostering discussions between the IASB and the industry lies in auditors' expectations that the outcomes of this dialogue will help them later, when auditing their clients' financial statements.

5.2 Getting to a shared standard meaning through a co-construction process

Industry adherence to the standard's final version appears to stem from the regulatory conversations involving both the IASB and representatives of the telecom sector, by means of which the standard's meaning got co-constructed. We show that auditors, as intermediaries, have been instrumental in this regard. Although both parties exhibited initial positions, which were diametrically opposed, exchanging arguments helped them reach a consensus even if the cash cap method was not retained in the standard final draft. On the one hand, auditors got the telecom industry to give up the cash cap method, based on conceptual grounds and on the other hand, they strove to make industry implementability and cost-efficiency arguments heard by the IASB.

5.2.1 Bringing the telecom industry to agree with the IASB conceptual arguments

At the beginning of discussions, the Telcos had a very strong desire to preserve existing practices. Maintaining the cash cap model was based upon the conviction of its superiority, both in terms of reliability and relevance for financial information users. Furthermore, instead of providing conceptual arguments to support their view, they hid behind a common practice argument, that did not help them to be heard by the Board, as a global PPF member reports about a meeting between the Telcos and the Board:

“They [Telcos] didn't come from a conceptual basis, they came from... ‘this is what we all do’. So, in the argument used to support what they wanted, they didn't use the language in which the Board are talking, they didn't use the model to their advantage.”
(A5)

One of the telecom operators interviewed takes explicit responsibility for this, his concerns being, above all, practical rather than conceptual:

“[...] because you have people who are very theoretical, and when you state a certain number of truths, you are told that you are stating an opinion and not facts. I don't know, when I submit a study of 20 users to say that users are not satisfied, I don't feel like I'm stating an opinion. I'm reporting the opinions expressed by users of financial statements.”
(T1)

These *verbatim* exemplify the difficulties, which the Telcos came across when entering the lobbying process, in particular because of the arguments they used. "Everyone does so" and "nobody wants to change" are authority arguments, which are rather weak and easily rebuttable as later made clear when the IASB invoked a Finnish operator as a counterexample. From the IASB point of view, the strongest argument against the cash cap model is of a conceptual nature, since linking revenue recognition to cash payments is at odds with principles founding accrual accounting. More generally, the IASB aims at producing principles-based standards being consistent with its conceptual framework and which offer the least possible industry-specific options. Poorly concerned about this stance, industry representatives started discussions with weak arguments in the eyes of the IASB, pointing to industry specificities and common practices, until auditors, being familiar with IASB accounting rhetoric, engaged into backing up their clients.

PPF members seem to have been decisive in getting the Telcos and the field auditors to consider another position than a strict opposition to the IASB's project. Being particularly familiar to interacting with the IASB and its staff, they were able to assist the Telcos and their field auditors, helping them to organise their argumentation and finally getting them to accept that the cash cap maintenance was not a realistic and relevant goal. A global PPF member gave us some illustrations of the kinds of assistance provided:

“Things like ‘What should you prioritise?’, ‘What do you really want out of this?’ [...] ‘If you can’t have what you want, what could you have as an intermediate step?’ or... ‘Would application guidance help?’, ‘Would more illustrative examples help?’ [...] So, I think, personally, that the London desk’s role was to educate, and inform [...]” (A5)

Thanks to this support, the Telcos, modified their discourse over the course of the different meetings with the Board to come closer to the one used by the Board, as explained by a global PPF member:

“They used a different approach. They started with ‘here is what your model says, and here is what we think could work for us in that context’. So, they did start [...] using the language that the Board use. So, it was much more effective with the Board rethinking their proposals [...] They do change their approach, and I think that was because all of the [audit] firms got together and helped educate them ...” (A5)

In facilitating discussions between their telecom clients and the IASB, auditors did not only intend to help the former make their point. Auditors' participation in the due process was also specifically aimed at bringing the IASB to justify the appropriateness of their model for revenue recognition against the Telcos. Had this not been the case, auditors would have become the target of industry's challenge of the new standard, post-adoption, as described by a field Telcos auditor, also member of the global PPF team:

“The last thing we would want is: ‘this is the requirement’, the sector says ‘we just can’t apply it, we’ll apply it in that particular way...’ [...] So the best thing is to bridge the gap, when the standard is at a stage where this just can be made rather than later [...] It is best if the standard itself solves the problem rather than us trying to solve the problem and facing the exposure to regulators.” (A6)

From an auditor's point of view, it is never a good thing to be placed in a conflict situation with the auditee. In our opinion, this is an important reason justifying why field auditors have engaged with their clients during the due process. The field auditors and PPF members we met did not appear to be driven by any particular ideology, which they would seek to promote. Rather, their purpose was to be able to achieve a satisfactory level of comfort while performing their future engagements and this, without having to come into conflict with the auditee. And that goal seems to have been achieved. Indeed, while a strong sense of rejection of the standard prevailed initially, the many discussions held between the IASB and Telcos appear to have made a positive contribution towards adherence to the new standard by the industry:

“In all the discussions we had with the staff and the Board in the process, yes I would definitely say that we also better understood their position and I think that's important to also understand the other side. In the end, it doesn't help to hold the view that we believe in [...] I think it helped to understand their perspective [...]. You can look at it from two sides to understand where the rationale is from the other party” (T2)

It is thus through extensive discussions that the IASB succeeded in convincing the Telcos to give way and accept the draft standard. This result would probably not have been achieved, had the industry not been fully committed to discussing with the IASB or had they merely sent a comment letter to the Board. These regulatory conversations could also be held thanks to the intermediary role played by auditors. We will now have a closer look at one of their major practical contributions to the discussion.

5.2.2 Ensuring that the IASB gives due consideration to implementation issues

Telcos' adherence to the standard seems to have been facilitated by the emergence of a solution to some implementation issues raised by industry representatives at the beginning of the due process. The RevRec project applies to individual contracts with customers. This is a source of both costliness and complexity to telecom entities, which may have millions of such contracts, as claimed by industry representatives since the early stages of the RevRec project. British Telecom, for instance, states in its comment letter to the 2008 DP that the project "adds even greater complexity to the systems and reporting and [...] potentially enormous costs associated with".

Two years later, when drafting ED1, the IASB dramatically changed its proposals but did not revise its contract-by-contract approach. Unsurprisingly, the Telcos raised the same argument in their comment letters, insisting on the impossibility for them to adapt their IT systems to the requirements of the IASB's project. According to Deutsche Telekom's comment Letter to the 2010 first exposure draft "the proposed model will be impossible to apply for telecom operators given the tremendous volume of transactions we face every day [...] This would require telecom operators to implement new IT systems [...] with estimated implementation costs amounting to at least hundreds of millions of Euros".

Obviously, the Telcos shared these fears with auditors who began to consider a practical solution that could ease the burden on Telcos implied by the contract-by contract approach required by the IASB. One of them, PWC, in its comment letter in response to ED1 explicitly "encourage the boards to consider whether it is acceptable for entities with large populations of customers, like those on the telecommunications or automotive industries, to allocate the transaction price to performance obligations based on a portfolio of similar contracts rather than at the individual level...". The crucial role of this audit firm in the emergence of the portfolio approach is confirmed by the IASB staff in a staff paper issued in June 2011. This document explains that: "To address concerns about the costs of applying the proposed model to a large number of contracts, the final standard will clarify that in some circumstances an entity might apply the proposed model to a portfolio of contracts with similar characteristics. One of the Big 4 publications [...] highlighted how an entity might do that".

Indeed, this portfolio approach suggested by an audit firm was incorporated in ED2. Specifically, ED2 states that an entity can account for a portfolio of similar contracts together if the entity expects that the result will not be materially different from the result of applying the standard to the individual contracts. The portfolio approach seems to have the advantage of complying with the standard's underlying principles while facilitating its implementation by the telecom industry. Based upon the bundling of contracts bearing the same characteristics, this method should simplify the price allocation step required by the standard.

However, although this option was submitted as a solution to operational issues faced by preparers, it was not well received by the Telcos in the first place, as T1 explains:

“Thus, the most typical was [PWC]. We just have to use a portfolio approach. The miracle solution! They had heard that we were not able to apply a contract-by-contract approach; it’s impossible due to the huge amount of data. Thus, brilliant approach, the portfolio approach! We should combine contracts, yes. OK, once you’ve said that, how do you combine them?”

Nevertheless, a year later, when we interviewed the same industry representative, his position has evolved and he was eventually considering that the portfolio approach would be appropriate as practical expedient. He also recognised that since the inception of the RevRec project, IT systems had considerably evolved, making the implementation of IFRS 15 easier than expected:

“At the beginning there was not a system of accounting engines, which allowed to address these volumes and its complexities [...] for a year now there are accounting engines, the computing power has increased [...] today there are engines that allow to manage very large volumes.” (T1)

Even if the inclusion of the portfolio approach in the standard was a small victory for the Telcos, they were not fully satisfied with the wording used by the IASB in ED2. Indeed, they feared that market regulators, and auditors (especially in the USA) could ask them to generate extensive evidence that the result of applying the portfolio approach would not differ materially from the contract-by-contract approach, as T1 explains:

“Because as we understand it, some audit firms were really freaking out about it [...] We were expected to show that it was the same [results], which meant doing the very work, which we didn't want to do [...] so ‘can you [IASB] clarify that this is a real relief and that you are not asking the industry to prove by a plus b that it is the same results.’”(T1)

In this context, the Telcos sent an additional common comment letter to the IASB after the second call for comments had expired. In this letter, they asked the Board to specify operational arrangements regarding the use of this approach. Adding precision to the text both makes it easier for Telcos to recognise revenue and alleviates the risk born by auditors. What is at stake here is the conditions under which complying with the future standard will be achievable, once the text has been endorsed. The IASB eventually responded to this request by specifying in the Basis for Conclusion of IFRS 15 that “In their discussions, the boards [Ed: the IASB and the FASB] indicated that they did not intend for an entity to quantitatively evaluate each outcome and, instead, the entity should be able to take a reasonable approach to determine the portfolios that would be appropriate for its types of contracts”. This concession from the IASB, is not only about guaranteeing Telcos an easier application of the portfolio approach. It also proved to Telcos that they had been heard, even if they could not get what they claimed at the beginning of the due process, as underlined by one Telco representative:

“It was still a success in terms of the (portfolio) approach, leaves more opportunities also, how to apply that without being compelled to necessarily demonstrate quantitatively that it's the same result as working contract by contract” (T2)

An IASB staff member explained that this last step offered the IASB the opportunity to implicitly recognize Telcos’ adherence to the new standard while kindly welcoming their request:

“[...] so, we improved the wording for the portfolio approach [...] and shared it with them [...] That is part of the process as well, they give us their feedback, we try to improve the wording and then we ask them whether what we did is what they had in mind, and we received positive feedback from them...” (I1)

While the IASB stuck to their conceptual framework, the telecom industry succeeded in making some of their practical arguments heard which led them to accept the new standard. In this process, we argue, auditors have been instrumental in facilitating the achievement of a consensus, both by providing the telecom industry with keys to understanding the IASB point of view and by suggesting a technical solution - the portfolio approach - to implementation challenges raised by the new standard. On the substance, discussions between the telecom industry and the IASB resulted in the revised standard disqualifying the cash cap method. Yet, the bargaining process led to the Telcos being ready to abide by the new rule for recognizing revenue, not least since the standard's wording eventually included a practical expedient negotiated with their auditors' support. Auditors as intermediaries thus allowed a shared understanding of the standard's conceptual foundations to be reached, an important milestone in the construction of agreed-upon interpretations, which will extend post-adoption. The fact that the IASB finally accepted to explicitly allow the portfolio approach without requiring costly and complex operations as justifications also sheds light on a managerialization process that will be further discussed in the next section.

6. Discussion and conclusion

Relying on the RIT model, we first discuss our findings regarding the *how* and *why* questions we raised about auditors' involvement along their clients in the latter's discussions with the IASB. We then engage in a deeper analysis of auditors' role as intermediaries in the endogenization of the revised revenue recognition standard by borrowing two concepts from the legal endogeneity theory: legalization of organizations and managerialization of law. Finally, we discuss an important, still unheralded role played by auditors, which we identified, as “shepherds” of the telecom industry. We conclude by offering some suggestions for future research.

6.1 Auditors' mediating role in the IASB due process

Relying on the RIT model to analyse regulatory conversations between the IASB, auditors and the telecom industry, we are able to provide a fish-eye view of information flow between the R, I and T poles of the model. Figure 1 shows this flow of information embodying a network of mutual dependency relationships between parties involved in the development of a revised standard.

[Insert Figure 1 around here]

The following comments aim at specifying underlying issues addressed by means of those regulatory conversations, highlighting the pivotal role played by auditors as intermediaries in the development of a standard. Conveying a good deal of indeterminacy, not least as regards the estimation of the standalone selling price of individual components forming bundled offers, the

draft IFRS 15 raises the risk of interpretive disputes arising between telecom operators and their auditors, post-adoption, at implementation stage. From the IASB point of view, direct feedback from targets is welcome since it helps to reduce information asymmetry with respect to preparers (Black, 2003). By engaging with the IASB, the telecom industry seeks to raise the standard setter's awareness of potential implementation issues and burdensome requirements. Indirect feedback from auditors on industry-specific contingencies such as the subsidized handset business model allows the standard setter to cross-check information gathered from Telcos, auditors' independence from their clients thus being critical in ensuring reliability of this feedback.

Rather than supporting their clients' conceptually flawed position, PPF members assist them in the negotiation of practical solutions to the costly implementation of the new standard. In so doing, they serve both field auditors' interest by lowering the risk that enforcing the new standard gets confrontational and their client's by substantially cutting implementation costs. In this respect, field auditors and PPF members' roles appear to be complementary. While the former rely on their colleagues' mastery of conceptual issues and easy access to the IASB to better support their clients, the latter expect field auditors to build on their thorough knowledge of the telecom industry in setting out preparers' position on the draft standard and assessment of impacts on the industry to be able to assist them in engaging with the IASB. Although being complementary in the above-mentioned respect, PPF members and field auditors may at the same time develop conflicting relationships as PPF members interfere in the auditor-client relationship. Indeed, we note that PPF members fulfill an internal coordination function by ensuring that, when interacting with their clients, field auditors do not express views that would stray from the firm's public position on the draft standard (as conveyed in comment letters to the IASB). In so doing, they perform their interpretive control function by preventing temptations from field auditors to assist clients in lobbying for industry-specific interpretations of the standard, thus exemplifying the dialectic at play between professional and commercial logics in Big Four firms (Gendron 2001, 2002; Suddaby et al., 2007; Malsh and Gendron, 2013).

As intermediaries, PPF members' role may be best described as providing conceptual assistance to their clients while field auditors' consists in clearing the way for the (future) practical implementation of the standard. Introducing a distinction between field auditors and PPF therefore allows us to highlight two different modes of (inter)mediation performed by auditors, sustained by their respective regulatory capacities. This is in line with Abbott and Snidal (2009) view that, at negotiation stage, several kinds of expertise are required. In addition to normative and political expertise (which PPF and IASB members demonstrate in our study), both business and auditing expertise (as exemplified by field auditors) are deemed instrumental in achieving effectiveness, the former "to ensure that the standard will mesh with business practices and be cost-effective" (Abbott & Snidal, 2009, p.12) and the latter to be able to assess the auditability of the future standard. Contrasting with the view that audit firms share a common ideology according to which accounting simply should operate as a tool for promoting the financialization of the economy (Chiapello and Medjad, 2009; Véron, 2007), field auditors whom we interviewed appeared to be mainly concerned with auditability issues in order to avoid future conflicts with their clients. Neither do we observe that auditors systematically endorse their clients' positions as suggested in former research (Georgiou, 2002, 2004; Van Lent, 1997).

As regards IASB normative expertise, auditors and the telecom industry each focus on specific, albeit different characteristics of the draft standard in trying to influence rule

development. Specifically, telecom industry representatives are concerned by issues of clarity and certainty that impact on compliance risk. Yet, under principles-based standards, “whether a rule is clear or certain depends on shared understandings” (Black et al., 2007, p. 194), i.e. depends on whether all those involved in accounting regulation agree on what the rule means. Field auditors, on their part, pay attention to auditability and enforceability characteristics as monitors of IFRS implementation and enforcers. Our observations show that sticking to auditability is important for both auditors, concerned to avoid acting as their clients’ advocates, and the IASB, being sensitive to the risk of regulatory capture. Besides, enforceability may be compromised by preparers’ resistance to the requirements of the standard as interpreted by field auditors if this interpretation is not shared by preparers. It is thus in preparers and auditors’ common interest to reach an agreed-upon standard’s meaning, which may then be enforced as the authoritative meaning. Our study shows that repeated interactions between industry and the IASB at standards-setting stage, mediated by auditors, pave the way for the emergence of such common understanding, thus emphasizing one important reason why preparers and auditors are involved in the due process.

Since the IASB has no enforcement authority, it is heavily dependent on local enforcers in general²⁰, and field auditors in particular, to make sure that complying with each individual standard means the same wherever IFRS are in force. Conversely, auditors depend on the IASB for the provision of auditable, and thus enforceable standards in the sense that auditors derive part of their enforcement authority from the standard itself (from the clarity and unambiguousness of its wording) and from preparers’ voluntary acceptance to defer to the IASB as a normative body.

Overall, envisioning rule’s meaning as socially constructed, as socio-legal studies invite us to do, fits neatly with the conceptualization of auditors’ role as RI. Combined together, these two theoretical lenses allow us to specify auditors’ role as intermediaries at the standard development stage. Specifically, under conditions of regulatory uncertainty stemming from rule ambiguity, and given the rescaling of accounting regulation²¹, we show that part of auditor’s role is acting as a go-between to foster dialogue between regulator and targets at standard setting stage, thus helping to reduce « barriers to entry » into the due process. This paves the way for the emergence of a shared understanding of the standard at implementation stage, which auditors will then be able to enforce as the authoritative standard’s meaning. Our study shows that such involvement by auditors is motivated by one of their main concerns, i.e. to facilitate future audit engagements. Yet, as noted by Edelman et al. (2011), endogenization stems from the fact that law meaning gets socially constructed through a co-construction process involving the very organizations that law targets. This leads us to investigate whether such endogenization may be inferred from our observations and to assess auditors’ potential contribution to the matter.

6.2 Auditors as intermediaries in the endogenization of the draft IFRS 15

To provide evidence of the endogenization of a standard at standards-setting stage, we mainly look for clues that accounting rules incorporate institutional logics pertaining to the organizational field (such as logics of rationality, efficiency, profitability, etc....). In so doing, we differ from the approach taken by Bozanic et al. (2012), who study the endogenization of insider

²⁰ Local enforcers include, *inter alia*, auditors, regulators, courts, analysts, and rating agencies.

²¹ Indeed, in countries which had not yet endorsed IFRS, and notably in European countries until 2005, regulatory conversations between preparers and standard-setter used to take place in a national setting, thus being strongly framed by jurisdictional idiosyncrasies, which let the former little prepared to interact at a transnational level.

trading rules, *inter alia*, by analyzing comment letters sent by preparers. Looking for comments that influenced the final version of rules as alleged by the SEC, they follow a method similar to due process studies looking for evidence of lobbying. Referring to the recursive endogenization process outlined by Edelman et al. (1999), we aim at providing indices of the endogenization of the draft IFRS 15 by successively highlighting the legalization²² of Telco firms and managerialization of the standard.

6.2.1 Assessing expected implementation costs: a projection into the legalization of Telco firms

During the standard development phase, Telco firms attempt to assess the way the draft standard might affect their operations, with their auditors' help. Looking at Big Four industry guidance publicly available on the subject, we note that all accounting firms point to potential impacts at both operational and business model levels. As regards substance, the draft standard is likely to involve both an acceleration in revenue recognition²³ and change in the allocation between goods and services²⁴. This significant redefinition of revenue profile is likely to impact key performance indicators, compensation arrangements and contractual covenants, resulting in the need to anticipate potential issues with investors, employees and lenders respectively. As for practical implementation, IFRS 15 requires to follow a five-step model of revenue recognition on a contract-by-contract basis, a complex approach that will "require modifications to existing accounting processes" (Deloitte, 2018). Elaborating on this issue, KPMG (2016, p.4-5) adds: "Telecom entities will need to capture the additional data required under the new standard – e.g. data used to estimate stand-alone selling prices [...] and to document the new processes and information appropriately, particularly as they relate to estimates and judgments". This, in turn, involves revising internal controls in relation to accounting processes.

We show that Telco firms take up these considerations as they comment IASB ED on revenue recognition, insisting that the future standard will deeply (and adversely) impact their business, assuming it is practically applicable. This projection into the future implementation of the standard by the telecom industry allows us to identify clues of the potential legalization of Telco firms, i.e of the influence that regulatory logics might have on their operational structure such as IT and internal control systems. To summarize, adapting Telco firms' systems and processes to be able to comply with the draft standard requirements appears both technically difficult and costly, given industry-specific features. Since auditors are fully aware that amending the draft standard on the substance to stick to current practices is not an option for the IASB, they prefer suggesting a way to alleviate both cumbersome efforts and costs which Telco firms would have to bear.

²² Although we transpose the conceptual framework of legal endogeneity theory to the field of accounting regulation, we stick to the "legalization" wording since a term-to-term transposition into "standardization of Telco firms" would convey a risk of misunderstanding.

²³ Recognizing revenue as the performance obligation is satisfied (i.e when the subsidized handset is delivered) rather than linking revenue recognition to cash payments (following the contingent cap method) results in accelerated revenue recognition.

²⁴ "Most wireless telecommunications (wireless) entities will have to allocate more revenue than under current IFRS to subsidised handsets bundled with service contracts." (EY, 2015)

6.2.2 Accommodating business logics: the managerialization of future IFRS15

Our observations provide indices of the revised standard being infused with managerial logics. First, inclusion of the portfolio approach in the draft IFRS 15 is intended to mitigate costs which would stem from a strict implementation of the standard (i.e on a contract-by-contract basis). As a general matter, practical expedients reflect the IASB concern that costs to provide financial information “should be justified by the benefits of reporting that information” (IASB Conceptual Framework, 2018, 2.39). In itself, this concern is indicative of managerial logics (cost/benefits approach) infusing the IASB Conceptual Framework. Furthermore, as the initial wording of the draft standard seemed to imply that Telco firms would have to demonstrate the equivalence of using the portfolio and contract-by-contract approaches, a cumbersome and costly endeavor, auditors and Telco firms altogether succeeded in bringing the IASB to specify that “quantitatively evaluating each outcome” would not be required. By making the portfolio approach a genuine relief to Telco firms, the IASB accommodates a cost-efficiency logic within the revised revenue recognition standard, which otherwise remains essentially driven by accounting principles stated in the conceptual framework. Put forward by auditors in response to the draft standard and further taken up by Telco firms, the portfolio approach may be considered to be a “compliance structure” (Edelman et al., 2011, p.918), i.e a procedure that is “specifically designed to comply with law or to symbolize compliance with law”. Whether compliance remains merely symbolic at implementation stage will depend upon the way Telco firms apply the revised standard. We note that, on the whole, significant judgement is required to follow the five-step model of revenue recognition²⁵ included in IFRS 15. In addition, implementing the portfolio approach in itself will require significant judgement while allowing for some flexibility in the segmentation of contracts. This comment echoes a finding by Bozanic et al. (2012) that, when preparers lobby the SEC revising insider trading rules, they attempt to gain increased flexibility in the wording of rules. Yet, not all solutions promoted by Telco representatives succeed in convincing the IASB. Rather, we observe that, as rational myths collide, institutional logics pertaining to the regulatory field may override business logics espoused by the telecom industry. This is the case as the IASB conceptual framework serves to counter the Telcos’ attempts at maintaining the former cash cap method for revenue recognition. This is consistent with previous findings from the literature showing that the conceptual framework, as a form of institutionalized thinking or rationalized myth, “limits both the types of issues which can be conceived of as accounting issues and the types of solutions which can be seen as appropriate accounting solutions” (Young, 1996, p.490). As a result, full legal endogenization of a standard may seldom be achieved.

To summarize, designed by auditors, formally submitted by Telco firms, endorsed and eventually incorporated in IFRS 15 by the IASB as a practical expedient, the portfolio approach exemplifies the managerialization of the revised revenue recognition standard and its partial endogenization. Our study highlights the instrumental role auditors played in this process as regulatory intermediaries. In so doing, it provides empirical evidence supporting Abbott et al. (2017, p.30) claim that the demarcation between regulatory roles may be ambiguous. Specifically, in the process of rules revision, intermediaries’ “expertise, informational

²⁵ In their public guidance to applying the revised standard, Big Four firms usually consider that IFRS 15 involves a modified balance between judgement and precise requirements as compared with former IASs that it replaces. While timing of revenue recognition becomes less flexible, increased judgement is required in areas such as estimation and allocation of stand-alone selling prices, not to mention the implementation of the portfolio approach.

advantages, and experience put them in a better position than the regulator in terms of understanding what modifications are needed”, granting them “unusual influence” on regulatory dynamics.

6.3 Large audit firms’ involvement in coordination processes at global industry level

In a thorough study of a multinational audit, Barrett et al. (2005) provide insights into globalizing processes in audit coordination. We extend this line of research by shedding light on coordination processes deployed by the PPF (and specifically its telecom industry specialized group), which fostered the emergence of a shared understanding of the future IFRS 15 at the global telecom industry level. First, we show auditors’ involvement in the coordination of the telecom industry by supporting the establishment of the ETAF as an active accounting forum aimed at sharing accounting practices. Auditors have undoubtedly prompted the emergence of a horizontal dialogue within the telecom industry, which turned out to be critical for the development of a coordinate action during discussions with the IASB. Second, we provide evidence that, having supported the emergence of the ETAF, auditors then enticed their clients, and further the whole industry, to engage in the formal due process of the RevRec project in a coordinate fashion (vertical coordination), thus fostering a vertical dialogue with the IASB. This dialogue unfolded in the form of meetings between the IASB and representatives from the telecom industry as part of IASB outreach activities. Figure 2²⁶ illustrates the role played by auditors to foster regulatory conversations both within the industry and without, with the standard-setter.

[Insert Figure 2 around here]

We find that, even if IFRS are non-industry-specific standards, the IASB welcomes coordination and homogenization endeavours by auditors at industry level, consistent with findings by Stenka et Jaworska (2019, p.14) that “through removing any divergences from the dominant view held by key players in the regulatory arena”, the operation of the whole standard-setting system is facilitated”. In turn, speaking with one voice proved an effective means to strengthen industry representatives’ bargaining power vis-à-vis the IASB and paved the way for a shared understanding of the standard to emerge within the industry. This go-between role highlights the contribution brought by “operational capacities”, referring to RI’s ability to carry out “activities in the field for which the regulators lack capacity, or that they would find too expensive” (Abbott et al., 2017, p. 20). While Abbott et al. point to “access” as “a capacity of particular importance”, we show that beyond helping the regulator make contact with certain targets, RI such as auditors from large audit firms provide additional support by helping structure and coordinate targets upstream, at the global industry level. Such finding exemplifies the

²⁶ While figure 1 highlights information flows in general, occurring between parties to the due process, figure 2 insists on coordination processes initiated by auditors. From a sequential point of view, horizontal coordination precedes vertical coordination. Indeed, even before the onset of IFRS, auditors felt the need to foster coordination among Telco firms’ accounting practices. Such attempt at horizontal coordination materialized through the ETAF inception, which later proved effective in engaging in a coordinated discussion with the IASB (vertical coordination). Vertical coordination thus refers to the homogenization of Telco firms’ positions aimed at increasing industry audibility and credibility in its dialogue with the IASB.

specific operational capacities which large audit firms' network structure provides, echoing former research "viewing industry specialist groups within large audit firms as a specific example of the coordinated operations of global audit firm networks" (Carson, 2009, p.355). Interestingly, we find that internal coordination of industry-specific knowledge in the form of industry specialists groups (our sector groups) within the global audit firm underlies external coordination of accounting practices at the global industry level. Also, consistent with audit firms' rhetoric, coordinating accounting practices and positions at industry level is deemed important since it will "facilitate industry-based comparisons of investment alternatives" (Tokar, 2005, p.689), thus supporting the firm's claimed commitment to serving the public interest.

Acting as shepherds of industry in coordinating responses and limiting response variation to the standard-setter's investigation of industry-specific issues, however, auditors arguably "make-up" Telco preparers in a way similar to the making-up of users as a category through abstraction from individual persons (Young, 2006). As a result, ideal-typical Telco preparers tend to substitute for 'real' Telco firms, whose assessment of future implementation issues is further homogenized and standardized through auditors' involvement in the due process. At this stage of the discussion, we may go a bit further by elaborating on the triple role that large accounting firms appear to play within the regulatory system. Indeed, our findings are indicative of auditors not only mediating the R-T relationship but also being involved in both rule-setting (by providing the IASB staff with a solution to implementation issues raised by the revised standard) and rule-taking (by calibrating their Telco clients' views on the draft standard). Such concentration of power raises the double issue of its conditions of possibility and consequences for accounting regulation. As regards the first point, the structure of the market for audit might provide part of the answer, being characterized by a Big Four's oligopoly with a fringe of second-tier firms. Such a setting²⁷ allows large firms to take advantage of their unique concentration of knowledge and expertise to extend their regulatory function beyond mere intermediation and include both supply of and demand for rules, further increasing their political and economic power in a self-reinforcing cycle (Herman, 2020). On the second point, the blurring of role boundaries arguably undermines auditors' independence, thus jeopardizing their effectiveness in fulfilling their watchdog function.

6.4. Concluding comments and avenues for future research

Our study first makes a contribution to research using the RIT model by documenting intermediaries' role in rule development in the context of accounting regulation. Specifically, for field auditors, taking part in the due process appears as a means to overcome barriers to auditability and enforceability stemming from rules' imperfections while Telcos seek to lower regulatory uncertainty and burden. The IASB aims at reconciling the principles-based nature of IFRS with their uniform implementation among adopting countries, a challenge which requires auditors (and to a lesser extent preparers) enrolment to be successfully met. In addition, we shed light on outreach activities conducted by the IASB and document the backstage operations within a Big Four firm. We draw these conclusions from interviews with embodied auditors, which makes a noteworthy difference with previous literature, mostly based whether on the analysis of comment letters or on interviews with IASB key people, but rarely on flesh and blood auditors

²⁷ Identifying the roots of Big Four's dominance is beyond the focus of our study. On this issue, see e.g Beattie et al. (2003); Herman (2020); Suddaby et al. (2007)

from large auditing firms. Moreover, by applying the RIT model to the upstream part of the regulatory process, we complement extant research which has so far concentrated on “the downstream constructionist role of regulatory intermediaries, associated with the monitoring and compliance stages in the regulatory process” (Brès et al., 2019, p.11).

Second, we identify auditors’ contribution to the endogenization of the draft IFRS 15 as intermediaries in discussions between the telecom industry and the IASB. First, we show that regulatory logics impact Telco firms as revenue recognition has been deeply modified and that auditors play a pivotal role in the assessment of consequences stemming from the standard revision. Conversely, we argue that the portfolio approach, driven by auditors, is indicative of managerial logics being incorporated in the standard. Our observations further show that auditors’ agenda in mediating regulatory conversations between their Telco clients and the IASB is focused on the promotion of their regulatory preferences, i.e. keeping standards auditable. We note that the five-step model of revenue recognition under IFRS 15 is far more complex to implement (and to audit) than the previous cash cap method, which might generate increased audit work and fees. Although we lack evidence in this regard, we suspect that this might partly account for auditors’ support for the IASB approach. This would be consistent with former literature suggesting that audit firms tend to favor standards that are likely to generate increased audit fees due to the complexity of their implementation for financial statement preparers (Jorissen et al. 2006; Kenny and Larson 1993).

Our third and related contribution deals with the role taken by auditors as coordinators of accounting policies at the global industrial level. At standard-setting stage, fostering coordination of positions taken by industry members regarding the draft standard facilitates dialogue with the IASB while promoting the emergence of a shared understanding of the standard at industry level. From auditors’ point of view, this is intended to ensure a uniform (and hopefully smooth) implementation of the standard over the telecom industry. Given that IFRSs are non-industry specific standards, this finding shows that the critical task to foster comparability at the industrial level rests with auditors as regulatory intermediaries. In sum, auditors’ role as shepherds of the telecom industry is played in a subtle way, serving auditors’ interests while demonstrating their concern for the regulator’s and clients’.

We see several lines of research emerging from our work. First, following the idea that auditors (and targets) are agents able to influence the content and meaning of standards (more precisely to construct and shape the meaning of standards), we suggest further investigating endogenization of IFRS 15, post-adoption. As regards Telco firms, looking at impacts of the practical implementation of the standard on systems would allow to trace both indices of their legalization and of the managerialization of the standard. Typically, looking whether Telco firms actually use the portfolio approach, and if so, in which way they operate the grouping of contracts, would shed light on the potential continuation of the endogenization process. Given that advances in IT systems now allegedly allow for a contract-by-contract approach, we suspect that Telco firms might choose to upgrade their systems, turning the constraint generated by the revised revenue recognition approach into an opportunity to improve performance management.

Second, our study makes a contribution in emphasizing the heterogeneity of partners’ profiles at the top of large accounting firms, especially by contrasting the role of PPF members with field auditors’. While the audit literature has long remained captive of a representation of partners’ profiles as being quite the same, new rules issued by the Public Accounting Oversight

Board (PCAOB)²⁸ have fostered a boom in archival research on audit partners in the US (Lennox and Wu, 2018). In search of an association between partners' characteristics and audit quality, these studies have looked at such characteristics as gender, busyness, education and social connections (e.g Burke et al., 2019) among others, albeit with mixed success as regards their hypothesized association with proxies of audit quality. Focusing exclusively on engagement partners, this line of research misses the variety of partners' functional positions at the top of audit firms. Nuancing Carter and Spence (2014, p.978) statement that "At the partner level, accountants are the embodiment of commercial logics *par excellence*", our study, we suggest, may be an invitation to examine, through field studies, the growing heterogeneity of profiles, attitudes, thoughts, and responsibilities structuring and differentiating the top of the hierarchical ladder in large firms.

Finally, "Comment letters have provided a wealth of detail for study. What is not so visible is other ways stakeholders influence the Board" (Tarca, 2018). Our study fills a gap in this respect. Overall, outreach activities of the IASB due process provide repeated opportunities for regulatory conversations to occur through direct interactions between the standards-setter and various constituents. Such interactions allow for a mutual adjustment process to take place and operate as a complementary device to comment letters. They provide the IASB with an invaluable means to make their proposals better understood while allowing preparers (and other constituents) to put forward their suggestions and concerns. Considering the length of the RevRec project, about ten years, although the IASB issued three calls for comments (as compared with an average two per draft standard), these distance exchanges remain scarce. Formal and informal discussions occurring during outreach activities thus form an important channel through which information may flow from various constituents to the standards-setter and back and from which researchers may draw precious material for investigating transnational accounting standard-setting.

²⁸ Rule 3211 of the PCAOB requires registered public accounting firms to disclose the name of engagement partners for each public company audit report issued after January 31, 2017.

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Figure 1

Information flows between parties to the IASB outreach activities with the telecom industry

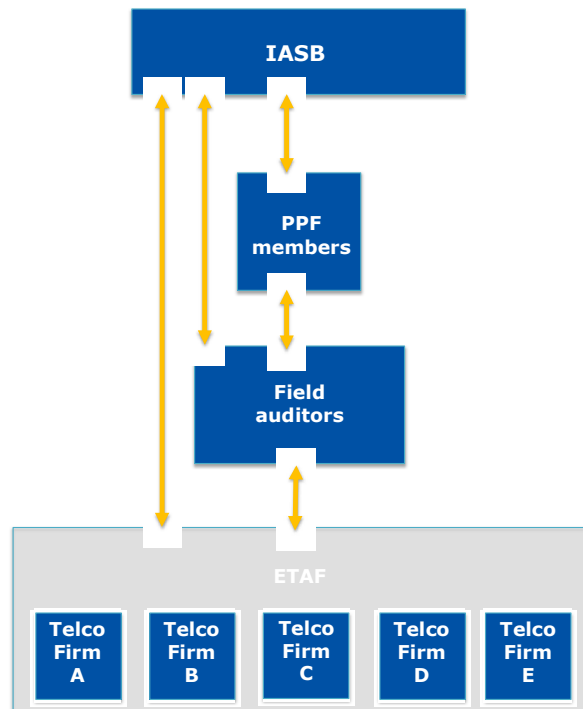


Figure 2: Global regulatory conversations articulation

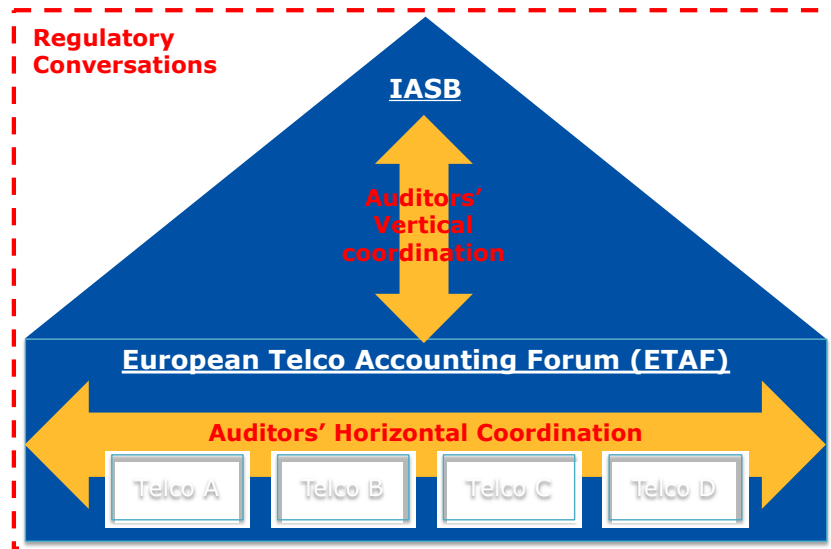


Table 1: Details of interviews conducted

IASB	Date	Length	Code (idem CCA)
Staff members (2 persons)	Oct-13	01:25	I1
Board member	June-11	01:15	I2
	Oct-13	00:42	
Auditors			
PPF, partner	Apr-12	00:35	A1
Field auditor, signing partner	Mar-12	00:57	A2
	May-12	00:37	
Field auditor, partner (co-responsible for the Telco sector group)	June-11	01:15	A3
	May-12	00:27	
Field auditor, senior manager (working part-time for the PPF)	May-12	01:30	A4
Global PPF, senior manager	Oct-13	01:32	A5
Global PPF, senior manager	Oct-13	00:35	A6
Field auditor, partner	Apr-12	01:16	A7
PPF and field auditor, partner (co-responsible for the Telecom Sector Group)	Jan-14	01:07	A8
PPF, partner	Dec-13	01:12	A9
PPF director	May-12	01:27	A10
PPF, partner (other big four audit firm)	Nov-14	01:00	A11
Telcos			
Director of Accounting Standards, operator 1	May-12	01:58	T1
	May-12	01:40	
	June-13	02:20	
Director of Accounting Standards, operator 2	June-14	01:40	T2
Director of Accounting Standards, operator 3	Sept-14	00:43	T3
Director of Accounting Standards, operator 4	Oct-14	00:52	T4
Financial Director, operator 5	Sept-14	01:01	T5
	Total	27:06	