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Digging deeper: uncovering constituent discourse in the international accounting standard setting process for the extractive industries

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Abstract

Purpose – The purpose of this paper is illuminate the way in which key constituents have influenced the process of setting an International Financial Reporting Standard (IFRS) for the extractive industries. Design/methodology/approach – Critical Discourse Analysis (CDA) is used to identify some of the key players involved in the international accounting standard setting process for the extractive industries, analyse their discourse and its implications, and assess the outcomes. A case study of one international accounting firm, one global petroleum corporation, and one petroleum industry lobby group was used to provide a cross-section of key players and explicate their influence on the international accounting standard setting process. Findings – CDA made visible the coalitions between powerful players and their impact on the eventual IFRS for the extractive industries. Evidence indicates that the setting of an IFRS for the extractive industries is merely a codification of the existing practice of powerful constituents. Research implications – As a research method, CDA has the potential not only to uncover the social practice and public discourse of accounting standard setting, but also to expose the discourse practice underlying the process. While this research has focused only one industry, there is potential to extend the scope within the extractive industries or in the broader international standard setting process. Originality/value – While it is well accepted that the accounting standard setting process is political, this research demonstrates the usefulness of CDA for providing concrete evidence of the source, nature and effect of this politicisation within the extractive industries.

Keywords

Extractive industries, international accounting standards, critical discourse analysis

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DIGGING DEEPER: UNCOVERING CONSTITUENT DISCOURSE IN THE INTERNATIONAL ACCOUNTING STANDARD SETTING PROCESS FOR THE EXTRACTIVE INDUSTRIES

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ABSTRACT

Purpose – The purpose of this paper is illuminate the way in which key constituents have influenced the process of setting an International Financial Reporting Standard (IFRS) for the extractive industries.

Design/methodology/approach – Critical Discourse Analysis (CDA) is used to identify some of the key players involved in the international accounting standard setting process for the extractive industries, analyse their discourse and its implications, and assess the outcomes. A case study of one international accounting firm, one global petroleum corporation, and one petroleum industry lobby group was used to provide a cross-section of key players and explicate their influence on the international accounting standard setting process.

Findings – CDA made visible the coalitions between powerful players and their impact on the eventual IFRS for the extractive industries. Evidence indicates that the setting of an IFRS for the extractive industries is merely a codification of the existing practice of powerful constituents.

Research implications – As a research method, CDA has the potential not only to uncover the social practice and public discourse of accounting standard setting, but also to expose the discourse practice underlying the process. While this research has focused only one industry, there is potential to extend the scope within the extractive industries or in the broader international standard setting process.

Originality/value – While it is well accepted that the accounting standard setting process is political, this research demonstrates the usefulness of CDA for providing concrete evidence of the source, nature and effect of this politicisation within the extractive industries.

INTRODUCTION

The International Accounting Standards Committee (IASC)[1] announced in April 1998 that it was adding to its agenda a project aimed at addressing accounting and disclosure issues in the extractive industries. This was highly significant, immediately attracting the attention of a vast global network of extractive industries companies and industry groups, with their associated constituents.[2] It would be difficult to overestimate the economic and political power of these industries, or their social and environmental impact. Up to this point, Australia was the only country to have its own standard specifically devoted to accounting for the extractive industries, and the IASC's project came as a belated response to frequent calls for the standardisation of extractive industries accounting and disclosure practices. These calls had been fuelled by the distinctive characteristics and economic significance of the extractive industries, and the increasing need to compare financial statements across international borders without the variable effects of applying numerous accepted accounting policies [1] [2] [3].

Since the restructuring of the IASC, the International Accounting Standards Board (IASB) has continued work on the extractive industries project, with one particular area of controversy being the method of accounting for pre-production activities by extractive industries enterprises. The two commonly used approaches to determining the value of pre-production costs to be capitalised are known as the successful efforts method and the full cost method, the rationale and implications of which will be described in more detail later in this paper. In seeking to determine whether either of these methods should be permitted, or whether companies should be given a choice, the IASC (and then the IASB) inherited an historical debate, conducted predominantly in the USA, which included speeches, research studies, and pronouncements on the issue throughout the 1960s and early 1970s [5].

One of the tenets of both the IASC's and the IASB's processes is transparency. This is evidenced by the opening of their meetings to public observation, the establishment of advisory groups, and the invitation to the public to comment on discussion documents about financial reporting issues and exposure drafts of proposed accounting standards. In 2000, interested parties were given the opportunity to respond to the Extractive Industries Issues Paper,[3] and 52 comment letters were received from a variety of constituents. This discourse could be taken at face value, in which case it appears that due process is being followed: the IASC called for comments, responses were made,

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[1] . The IASC was restructured to the International Accounting Standards Board (IASB), becoming operational in 2001. Throughout this paper both bodies will be referred to since the Extractive Industries project was initiated by the IASC and carried forward by the IASB.

[2] The first industry specific accounting standard for the extractive industries in Australia, *ASRB 1022: Accounting for the extractive industries*, was issued in October 1989, and was based on *AAS 7: Accounting for the Extractive Industries*, which was first issued in 1976 [4]. It was later reissued as AASB 1022.

and the IASB then deliberated on those comments. However, Critical Discourse Analysis (CDA) looks behind the public discourse, to the "interactive process of meaning-making" [6, p.10], to determine how that discourse is produced, received and interpreted, and a new discourse produced. This paper analyses the social practice (the economic, institutional, political, and social environments) and the public discourse (the written and spoken text itself), and uncovers the discourse practice (the production and interpretation of the text) [6] that relates to the development of an accounting standard for the extractive industries, particularly the issue of accounting for pre-production expenses.

The paper is structured in the following way. The next section provides background to the extractive industries, focusing on its economic importance, the implications of the successful efforts or full cost methods of accounting for pre-production costs, and the efforts of the IASC/IASB to formulate an accounting standard for this unique industry. A description of CDA follows, in which its methodological variations are outlined and this paper is aligned with Fairclough's [6] approach. The social practice undergirding the promulgation of an international accounting standard for the extractive industries is identified as being composed of the dynamics of the extractive industries worldwide, IASC/IASB funding arrangements, and IASC/IASB due process. Comment letters submitted by three parties in response to the IASC's invitation to comment, are identified as the public discourse of the process. These parties are ExxonMobil Corporation, a multinational company, PricewaterhouseCoopers, one of the "Big 4" international accounting firms, and the American Petroleum Institute, an industry group. They have been chosen as a cross-section of all submissions. The discourse practice underlying these submissions is presented by identifying three sets of connections between these three bodies and the IASC/IASB itself. The resulting outcome is a "new" public discourse. Conclusions are then drawn about both the visible, official discourse and the invisible, underlying discourse. The potential of this method of CDA for uncovering further hidden and complex relationships between constituents in the international accounting standard setting arena is outlined.

THE EXTRACTIVE INDUSTRIES

The extractive industries have been defined as the petroleum (oil and gas) and mining industries that are involved in "finding and removing wasting natural resources located in or near the earth's crust" [7, p.14]. Economically, the extractive industries are significant at the organisational, national, and international levels, with many of the world's largest mining companies, such as the Royal Dutch/Shell Group, BP, BHP Billiton, Rio Tinto, and ExxonMobil, well-known and established household names. ExxonMobil, which will be used as an example throughout this paper, regularly records revenues in excess of US$200 billion and net profits of approximately US$20 billion [8]. One aim of the IASB's extractive industries project was to regulate the manner in which profits of such corporations are measured, recorded, and disclosed. Of particular interest in this paper is the way profits are affected by the accounting treatment applied to pre-production costs, a key concern for the IASB in developing the international accounting standard for the extractive industries [7].

Pre-production costs are incurred as a result of activities undertaken before mineral resources can be extracted, and include costs relating to prospecting, acquisition, exploration, evaluation, development, and construction [7]. Pre-production costs are

accounted for according to historical cost principles. Over time, and as a result of industry practice, two main methods of accounting for these activities have developed. They are the successful efforts method and the full cost method [9] [7] [10].[4]

The successful efforts method is the older and more conservative of the two methods and permits pre-production costs to be capitalised if they are related to the successful discovery and development of a mineral reserve [11] [7]. These capitalised costs are then amortised against the revenue earned from the successful project [7]. If a project proves to be unsuccessful, the pre-production costs relating to it must be written off at the time it becomes evident that the project will not be successful [12] [11] [13] [7]. Although the successful efforts method is argued to be consistent with the accounting principles of matching and conservatism, the inherent uncertainty associated with exploration activities means that the income streams and asset balances of entities reporting under the successful efforts method can fluctuate significantly [14] [13]. As a result, the successful efforts method is typically avoided by smaller companies and instead adopted by large entities that can afford to absorb the losses from unsuccessful pre-production efforts [14] [13].

Smaller companies, known as “juniors” in the industry, typically favour the full cost method of accounting for pre-production activities [12] [11] [13] [15] [16] [17]. This is because the full cost method enables all pre-production costs to be capitalised regardless of whether they relate to successful or unsuccessful ventures and regardless of when and where they were incurred. These costs are then matched against the revenues received from successful projects which creates an income smoothing effect [11] [15] [7]. This is popular with junior companies given their limited sources of finance, strict debt covenants, and aggressive exploration programs [12] [11] [13] [15] [16] [17].

The differing results that may be obtained using either the successful efforts or full cost method have been a major cause of controversy for the extractive industries.[5] The successful efforts versus full cost debate has raged for almost four decades, predominantly in the USA, from the time of the Financial Accounting Standards Board’s (FASB) efforts to eliminate full cost accounting in 1967 [18]. This was an attempt to solve the problem of inconsistencies of extractive industries accounting practices and to enhance comparability and transparency across entities [11] [5] [18]. However, the FASB failed to eliminate full cost accounting due to the political pressure exerted by the oil and gas industry [11] [13] [15] [5] [19] [18] [20] and both the full cost and the successful efforts methods are currently used by extractive industries entities [21]. The successful efforts versus full cost debate resurfaced at an

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[4] Variations of these two main methods have developed over time according to industry practice, however it is these two methods that are the focus of this research.

[5] . The results of Premier Oil, an independent oil producer based in the UK, are an example of the significant effect of each of these methods on the timing of expenses and income recognition. In 2004, Premier Oil switched accounting methods from full cost to successful efforts, resulting in a downward restatement of profits from $44 million to $22 million [25]. Similarly in 1985, Conquest, a petroleum company based in North America, reported as a full cost company posting a $3.7 million profit but later restated its results under successful efforts accounting and recorded a $17.1 million loss [14].

international level in 1998 when the IASC embarked on its extractive industries project [7] [22] [23] [24] [3]. The IASC recognised that the divergence in accounting practices was a significant inhibitor to the comparability of extractive industries entities and sought to address this issue in its Issues Paper [7]. The comment letters submitted are identified as part of the public discourse of the international accounting standard setting process and are the focus of this paper. The next section outlines the investigative power of critical discourse analysis and the way it can be applied to studies of accounting standard setting.

CRITICAL DISCOURSE ANALYSIS

The extant research on accounting for the extractive industries and accounting standard setting has been primarily positivist, even when content analysis has been used to study qualitative information [26, p.504] [27]. These positivist studies have not acknowledged the role of social and political contexts. Some research has addressed the politicisation of the accounting standard setting process [28] [29] [30] [31] [32] [33] [34] [35] [36] [20]. Other studies have considered the underlying political practices and institutions of accounting [37] [38] [39] [40] [41] [42] [43] [44] [45]. This paper develops and extends this work by using CDA, not only because it illuminates political activity in the standard setting process, but because it considers how this occurs in a seemingly transparent and public process. In addition, it can effect change through a critical understanding of the prevailing social system [46].

CDA [47] [48] [6] takes an explicit socio-political stance, which acknowledges the importance of the social practice, that is, the social, political and economic contexts of any enquiry. Central to CDA is the understanding that language (written or spoken) is integral to social life and fundamental to political negotiations at a number of levels. It is this acknowledgement that makes Fairclough's [47] [48] [6] CDA distinctive from other forms of discourse analysis, as he not only identifies the levels, but also recognises a simultaneous relationship between them:

> (e)ach discursive event has three dimensions or facets: it is a spoken or written language *text*, it is an instance of *discourse practice* involving the production and interpretation of text, and it is a piece of *social practice* (emphasis in original) [47, p.136].

It is the identification of linkages between these three levels (as portrayed in Figure 1) of a discursive event that enables the relationship between "discourse, power, dominance and social inequality" [46, p.249] to be discerned and illuminated [6]. By examining the text, or public discourse and the social structure within which the text is put forward (social practice), it is possible to expose the discourse practice as an "interactive process of meaning-making" [6, p.10] that occurs as public discourse is produced, received, and interpreted.

In this inquiry, the discursive event relates to the setting of an international accounting standard for the extractive industries, from the identification of this as an agenda item for the IASC, to the formation of the Steering Committee, to the development of the Issues Paper, the calling for responses, the resulting comment letters, and the eventual production of the accounting standard. By applying CDA to this event, the following three facets can be identified, and are portrayed in Figure 2.

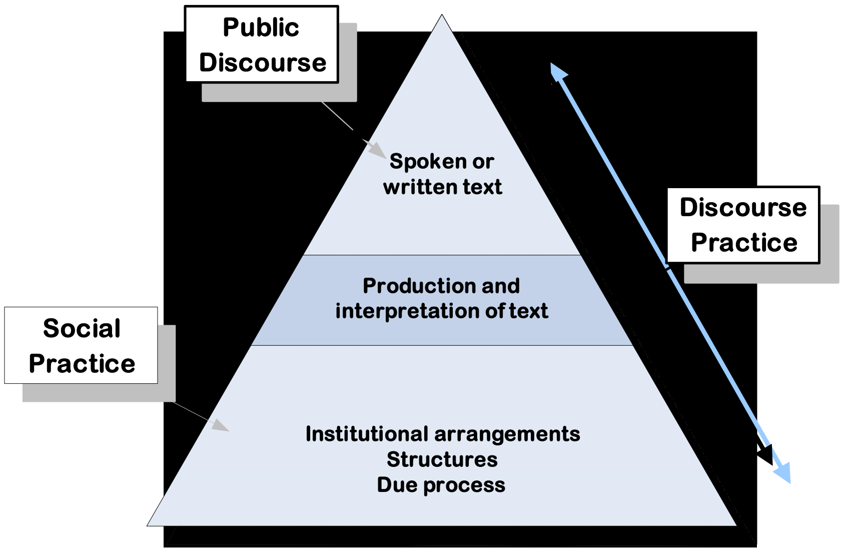

FIGURE 1. A FRAMEWORK OF CRITICAL DISCOURSE ANALYSIS (ADAPTED FROM FAIRCLOUGH [47] [48] [6])

(1) The social practice in the discursive event being examined in this paper is represented by three components, the extractive industries, IASC/IASB funding arrangements, and IASC/IASB due process.

(2) The public discourse can be identified as the comment letters submitted in response to the Issues Paper.

(3) The discourse practice will be analysed by examining the relationship between three organisations and the IASC/IASB.

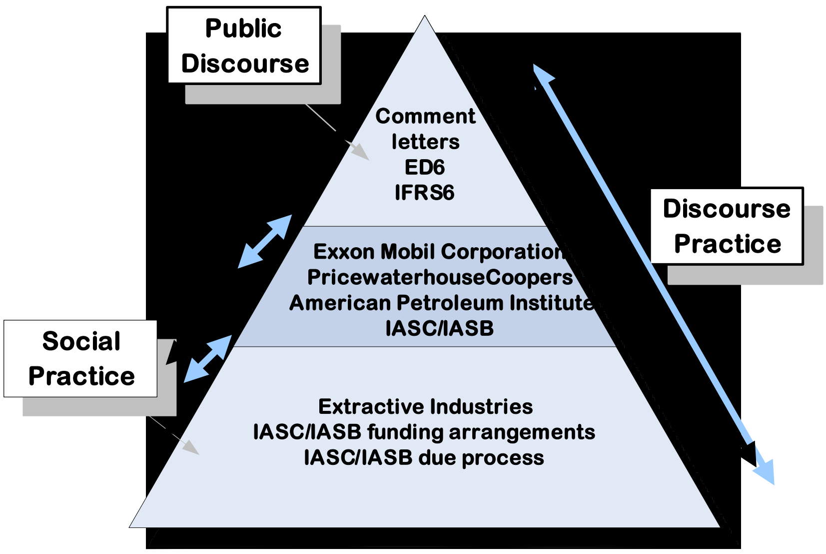

FIGURE 2. APPLYING A CRITICAL DISCOURSE ANALYSIS FRAMEWORK TO INTERNATIONAL STANDARD SETTING FOR THE EXTRACTIVE INDUSTRIES

The discourse practice makes connections between the public discourse and the social practice to show how meanings are created and controlled. CDA thus dispels any false consciousness and enables this discourse practice to be exposed and analysed, rather than remaining hidden and taken-for-granted. Closer examination of these three facets follows.

SOCIAL PRACTICE

This study is contextualised within the social practice reflected in the composition of the extractive industries worldwide, already described, the IASC/IASB funding arrangements, and IASC/IASB due process. These are portrayed diagrammatically in Figure 2.

IASC/IASB FUNDING

Prior to the IASC's restructuring in 2001, the Committee's revenue came from three main sources: fees paid by Board members and by the International Federation of Accountants, profits made on IASC publications, and voluntary contributions from companies and other organisations with an interest in the work of the IASC [49]. The major international chartered accounting firms have been providing monetary support to the IASC since the external funding initiative was launched in 1990 and have always been its major source of funding [50].

As part of the restructuring, the IASC Foundation (IASCF) was formed and it was envisaged that the IASB would be supported primarily by private contributions of chartered accounting firms and business enterprises internationally [51]. In order to secure a steady stream of funding, the IASCF established an "underwriter" class of supporter comprising major international financial and business organisations [51, p.3]. Underwriter companies are asked to make five-year pledges of monetary support to the IASB ranging from £100,000 and £200,000 per year. In addition, other "supporters" make annual, undisclosed contributions to the IASB [51, p.3]. At the inception of the restructured IASB, the (then) "Big 5" chartered accounting firms each pledged £1,000,000 per annum, which comprised approximately one third of the IASB's estimated operating budget [51].

In 2004, the IASC Foundation reported that it received contributions totalling almost £10,000,000 from 186 corporations, associations, and other institutions, including a number of the world's leading multinational corporations [52]. The IASC/IASB's funding arrangements have come under attack from commentators who have suggested that it sets up a dependency relationship between the IASC/IASB and its benefactors which may marginalise critical issues, such as environmental and social accounting, in favour of issues that align with the political and economic interests of the supporters [53].

IASC/IASB DUE PROCESS

The institutional arrangements that support the setting of international financial reporting standards involve a "due process",[6] in which the views of "experts from the accounting profession, users of financial statements, business community, and national standard setting bodies" are sought via public consultation [50, p.1]. To lead the due process for the extractive industries project, significantly, the IASC established an internationally representative Steering Committee in 1998.[7]

The first milestone for the Steering Committee was the publication of the Issues Paper in November 2000. The Issues Paper was a 412-page document consisting of 16 chapters which raised a number of "Basic Issues" and "Sub-Issues" concerning matters such as reserve estimation and valuation, recognition and measurement of inventories, and financial statement disclosures. Of interest in this paper is the controversial issue of the method of accounting for pre-production activities and, specifically, whether the full cost or successful efforts methods may be used. This matter was addressed in chapter four of the Issues Paper, with interested parties invited to comment on which type of accounting method(s) they would prefer.

PUBLIC DISCOURSE: COMMENT LETTERS

The comment letters submitted to the IASC/IASB in response to this invitation comprise the public discourse that is the focal point for the CDA applied in this paper (see Figure 2). Given the "widespread interest" in, and the relevance of, the project, the Steering Committee sent the Issues Paper to the "senior financial officers of nearly 300 extractive industries companies worldwide" with a direct request for comment [22, p.9]. Interestingly, despite the Steering Committee's efforts to elicit responses, and the supposed interest in the project, only 52 comment letters were received. These were from respondents in Australia, Canada, China, Germany, South Africa, the United Kingdom, and the USA. The principal activities of the respondents were also varied and included mining and petroleum companies, extractive industries lobby groups, chartered accounting firms, professional accounting bodies, standard setting bodies, and academics.

To guide commentators, the Issues Paper set out the Steering Committee's tentative views on some of the issues considered most significant. The Steering Committee indicated its preference for the successful efforts method of accounting for pre-production activities and suggested that only one method should be permitted in the final IFRS for the extractive industries. Therefore, in effect, the Steering Committee was attempting to eliminate the use of the full cost method and require all extractive industries enterprises to report under the successful efforts method. Of the thirty-seven respondents who commented on the successful efforts versus full cost issue, twenty-nine explicitly agreed with the treatment proposed by the Steering Committee.

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6. A critique of the social discourse of this "due process", while worthy of further study, is beyond the scope of this paper. Mouck [54] explores the subjective social construction of a financial reporting regulatory framework, which he described as the "rules of the game" [54].

7. Closer examination of the members' professional backgrounds revealed varying backgrounds from chartered accounting, company executives, financial analysts, and academia.

It is worth noting that the majority of comments on this matter were made by large extractive industries enterprises that were already using the successful efforts method of accounting or by chartered accounting firms that were representing the interests of their clients which are these same large enterprises. Significantly, the respondents arguing against the cessation of the full cost method included the large extractive industries lobby groups. These groups represented the interests of not only the large extractive industries enterprises, but also the smaller, independent exploration and production companies that relied on the full cost method to smooth income and access debt finance.

Rather than a superficial analysis of the content and source of these submissions, CDA facilitates deeper analysis of this public discourse, revealing a series of connections between the respondents. To illustrate these connections, a cross section of respondents was selected for further analysis: a company, an accounting firm, and an industry group. The company chosen was ExxonMobil Corporation, a USA-based petroleum and petrochemical company. ExxonMobil's operations span more than 200 countries across 6 continents and the company is involved in exploration, production, refining, and marketing of oil, gas, and petrochemical products [8]. ExxonMobil's most recent financial highlights include total revenue of US$298 billion, net income of US$25.3 billion, total assets of US$195 billion, and a market valuation of US$300 billion [8].

PricewaterhouseCoopers (PwC), the chartered accounting firm chosen for this analysis, is the auditor for ExxonMobil [8]. PwC is the largest of the "Big 4" chartered accounting firms, providing auditing and assurance, crisis management, human resource management, tax, and advisory services to its clients, which include 84% of the companies in the Fortune Global 500 index [55]. For 2005, PwC's total gross revenues were US$20.3 billion [55].

The industry group chosen for this analysis is the American Petroleum Institute (API), of which both ExxonMobil and PwC are members. The API is based in North America and represents over 400 members involved in all aspects of the oil and gas industry [56]. The mission of the API is to "influence public policy in support of a strong, viable U.S. oil and natural gas industry" [56]. To that end, the API engages in legislative and regulatory advocacy and provides a forum within which members can collaborate to develop consensus on policy matters such as those contained in the IASC's Issues Paper [56].

The IASC/IASB's funding arrangements, and the resultant financial relationship between the IASC/IASB and the respondents to the Issues Paper, form just one of the overlaps of influence involved in the process of setting an international accounting standard for the extractive industries. Other overlaps exist between the IASC/IASB and respondents in terms of representation on the Boards and Committees of the IASC/IASB, overlaps between respondents and their auditors, and overlaps between the respondents themselves. It is important that these overlapping interests be revealed to gain a richer understanding of the discourse practice that contributes to the standard setting process, as portrayed in Figure 2.

DISCOURSE PRACTICE

THE FIRST CONNECTION: PWC AND THE IASC/IASB

The five accounting firms already identified as major contributors to the IASC/IASB were PwC, KPMG, Ernst & Young, Deloitte Touche Tohmatsu, and Arthur Andersen. These accounting firms have traditionally provided important resources to the IASC/IASB in the form of staff, technical expertise, and members for many of the IASC/IASB's committees. Indeed PwC, the firm selected for analysis in this paper, was represented on the Steering Committee established to direct the extractive industries project and formulate and publish the Issues Paper.

As well as providing financial, personnel, and technical support, the chartered accounting firms serve an important liaison function between the IASC/IASB and their clients. Evidence of the interaction between chartered firms and their clients with respect to IASC/IASB issues can be found in the opening paragraphs of the comment letter submitted by PwC South Africa, in which the firm stated that "in preparing this response we have sought input from members of our South African firm" [57, p.1]. In addition, Georgiou [58] provided evidence that a considerable number of companies lobby the IASB through their external auditor thus requiring extensive consultation between auditor and client in order to ensure that client interests are accurately represented.

PwC provided two responses in respect of the Issues Paper, one (already mentioned) from its South African branch and another from its Australian office. In response to the full cost versus successful efforts issue, PwC Australia supported the tentative views of the Steering Committee, indicating that it would prefer a method consistent with the successful efforts method and that only one method should be allowed. However, PwC Australia also cautioned the IASC against using "established terms" such as full cost and successful efforts because of the variety of different meanings and hybrid approaches that have evolved. They stated that "their continued use may only serve to perpetuate existing differences in thinking and practical application" [57]. While PwC South Africa supported the views of the Steering Committee, it noted that "special consideration" should be given to junior companies, allowing them to carry forward costs pending determination of commercially recoverable reserves [57].

THE SECOND CONNECTION: EXXONMOBIL, PWC AND THE IASC/IASB

PwC was ExxonMobil's auditor for the 2004 financial year, receiving US$47.5 million from the company for the provision of audit, advisory, and taxation services [59]. ExxonMobil submitted a comment letter in response to the Issues Paper and Esso Imperial Oil (Esso), a Canadian subsidiary of the Exxon Group, also submitted a response. In effect, this enabled the views of the Group to be put forward twice. Both ExxonMobil and Esso supported the tentative views of the Steering Committee that one method of accounting consistent with the successful efforts method was acceptable. This endorsement of the Steering Committee's views is not surprising given that both entities currently report under the successful efforts method and with

both having adequate resources to absorb losses that may be incurred from unsuccessful exploration efforts [60] [61].

Both ExxonMobil and Esso stressed that the USA Financial Accounting Standard 19 (FAS 19) was their preferred standard for extractive industries accounting. FAS 19 was a key driver of the successful efforts versus full cost controversy in the 1960s and 1970s because it required the use of the successful efforts method and prohibited the use of the full cost method. However, in response to the controversy, the USA Securities and Exchange Commission adopted the provisions of FAS 19, and in addition, incorporated into its reporting rules permission for entities to use the full cost method as an acceptable alternative for reporting purposes [62]. This had the effect of suspending the requirements of FAS 19 and permitting companies to continue using their present methods of accounting [62].[8] Therefore, while a simple analysis of ExxonMobil and Esso's responses would show agreement with the use of the successful efforts method of accounting, closer reading of the submissions and further analysis reveals that it was in fact subject to the precursor that FAS 19 was the most acceptable alternative, which allows substantially more flexibility than that proposed in the Issues Paper.

Further, ExxonMobil has been a "supporter" since its reconstitution in 2001, providing an annual but undisclosed sum of money to help fund the activities of the IASB. ExxonMobil and its subsidiary companies are also affiliated with a number of industry bodies including the International Association of Oil and Gas Producers, the American Petroleum Institute, the USA National Petroleum Council, the USA Energy Association, the UK Petroleum Industry Association, the Australian Institute of Petroleum, and the Canadian Association of Petroleum Producers. Of these industry groups, the API submitted a comment letter in response to the Issues Paper on behalf of its members and provides the third layer of this analysis.

THE THIRD CONNECTION: API, EXXONMOBIL, PWC AND THE IASC/IASB

ExxonMobil is one of over 400 member companies represented by the API. The API is a research and lobby group that represents the interests of the oil and natural gas industry [56]. Many of the API member companies have provided financial assistance to the IASC/IASB as either underwriters or supporters and/or have also responded to the Issues Paper, including companies such as BP, the BHP Billiton, ConocoPhillips, ExxonMobil, Kerr-McGee, the Royal Dutch/Shell Group, and Total. While the API's representation of such large multinational corporations is important, individually, these entities already have a voice: they have the resources, inclination, and ability to participate in policy making decisions, such as the setting of an international accounting standard for the extractive industries. The value of the API is that it is able to present these individual views in a collective and unified manner and also to provide an opportunity for smaller entities to have their interests represented

[8] The suspension of FAS 19 was contained in Financial Accounting Statement 25 as an amendment to FAS 19 [62].

on issues from which they would otherwise be excluded. While the API's full member list is not publicly available, of the 250 members that are listed, the vast majority are junior exploration companies or relatively small industry service providers that it would be reasonable to assume would not possess the expertise or resources to participate in high level accounting standard setting policy deliberations. Given the industry representativeness of coalitions such as the API, it is reasonable to assume that it has a significant amount of influence in the IASC/IASB's due process.

The API, in its comment letter, indicated its support for policies and practices consistent with USA GAAP, and specifically for the provisions of FAS 19 which allow reporting under either the successful efforts or full cost methods [63]. The API stressed the importance of providing the industry the "flexibility" of both approaches to accounting and allowing entities to choose the method most suitable for financial reporting [63]. The API acknowledged the controversial nature of this position but argued that comparability of results between successful efforts and full cost entities had not proved to be a problem for the US because of disclosure requirements that allowed users to differentiate between the two methods [63].

OUTCOMES: THE "NEW" PUBLIC DISCOURSE

In inviting comments on its Issues Paper, the Steering Committee indicated its preference for pre-production activities to be accounted for using the successful efforts method. It proposed that only this accounting method should be available for use by extractive industries entities. In other words, the IASC was attempting to eliminate the use of the full cost method of accounting for extractive activities and require entities to report under the successful efforts method. PwC agreed with the broad position of the Steering Committee, although as already noted, its South African branch suggested that special consideration should be given to junior entities. ExxonMobil, and its subsidiary Esso Imperial Oil, of which PwC is the auditor, also endorsed the views of the Steering Committee. However, it indicated an over-riding preference for an approach consistent with FAS 19, which offered considerably more flexibility than that proposed in the Issues Paper. The API, an industry research and lobby group of which ExxonMobil is a member, directly opposed the views of the Steering Committee, arguing that preserving existing practices and allowing companies the flexibility of both the successful efforts and full cost methods was important to the extractive industries.

The Steering Committee intended to review the public responses to the Issues Paper and, on the basis of these, develop an Exposure Draft which would also be published for public comment [7]. The comments received in respect of the Exposure Draft would be reviewed, after which a final standard would be produced for consideration by the restructured IASC Board. However, at the time the Issues Paper was published, the IASC was in the midst of restructuring. As a consequence, the IASC's plans for the development of the extractive industries project came with the caveat that "the restructured IASC Board will have to decide its own agenda and priorities", and indeed it did [7, p.5].

In July 2001, the IASB announced that it would restart the project only when agenda time permitted [64] [65]. In September 2002, it was decided that it was not feasible to

complete a comprehensive project in time for adoption by entities in 2005. Instead, on 15 January 2004, Exposure Draft 6 Exploration for and Evaluation of Mineral Resources (ED 6) [65], was issued in lieu of a comprehensive international accounting standard for the extractive industries, forming the "new" public discourse as shown in Figure 2. The exposure draft was opened for public comment until 16 April 2004 and was intended to make limited improvements to accounting practices for exploration and evaluation expenditures without requiring major changes that may need to be revised once a comprehensive review of the accounting practices of extractive industries entities was made [66] [65]. To that end, ED 6 permitted entities to continue with their most recent accounting policies until the completion of the comprehensive review.

In other words, ED 6 enabled both the successful efforts and full cost methods to be used by extractive industries entities to account for their pre-production activities. There was little opposition to these proposals and the provisions of ED 6 were eventually incorporated into International Financial Reporting Standard 6 *Exploration for and Evaluation of Mineral Resources* (IFRS 6) on 9 December 2004 [67]. It appears that the time frame for continued use of existing accounting policies is unspecified at this stage, with no developments on the project since IFRS 6 was issued [68].

This is not surprising because the "new" public discourse (see Figure 2) is in effect reinforcing the status quo and simply codifying established industry practice. The status quo in the standard setting of the extractive industries is reflected in "relatively stabilized configuration of discourse practices" [48, p.2]. The status quo is maintained by allowing choice in methods of accounting and hence providing a substantial degree of reporting flexibility to the preparers of financial reports. However, this flexibility undermines comparability of performance across companies using diverse accounting methods. While this situation may be desirable for the preparers of the reports, it is contrary to the espoused objectives of accounting standards, whose aim is to facilitate the creation of financial reports that provide guidance to users when making economic decisions [4, p.12]. This paper shows that in accommodating choice in methods of accounting, the control of the discourse practice is masked. In this way, the emergence of other discourse practices is constricted.

CONCLUSIONS

This paper has used CDA to expose the connections underlying the setting of an IFRS for the extractive industries. It has identified three components of the social practice in which the process is embedded. These are the extractive industries worldwide, IASC/IASB funding arrangements, and IASC/IASB standard setting due process. The public discourse chosen for analysis was the comment letters submitted by interested constituents in response to the IASC's extractive industries Issues Paper. The result of this process, ED 6 and IFRS 6, gave no hint of the discourse practice that occurred behind the scenes. Deeper analysis of ExxonMobil Corporation, PwC, and the API, and their interactions with the IASC/IASB and each other, revealed a web of coalitions which resulted in the final outcome's being a codification of the existing practice of powerful constituents.

It is suggested that the IASC/IASB's due process, while it appears to be open and transparent, has the potential to be co-opted by powerful interest groups. While it is widely acknowledged that the accounting standard setting process is political, this research provides concrete evidence of the source, nature and effect of this politicisation within the development of an international accounting standard for the extractive industries.

The focus of this study has been on the IASB, on the development of one accounting standard, on the responses made to one Issues Paper, and on a cross-section only of those responses. Because the extractive industries project is an industry-wide project rather than a topical project, it has provided an ideal opportunity to identify industry constituents which may be more diffuse in the response to other international accounting standards. The authors believe, however, that the coalitions exposed by CDA in this instance indicate the possibility of fruitful further study. This could be achieved by widening the focus to the public discourse surrounding other issues relating to accounting for the extractive industries, to accounting standard setting issues in general, or to other accounting matters where there is a visible public discourse within an institutional setting. While the attention of this paper has been on the issue of whether the full cost or successful efforts method should be used to account for pre-production costs, there are other issues relating to the extractive industries, for example, accounting for removal and restoration costs, which have not received the same public airing. The setting of an agenda for discussion is thus a discourse in itself.

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