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Eurasian Economic Perspectives

Proceedings of the 29th Eurasia Business and Economics Society Conference

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Preface

This is Volume 1—Eurasian Economic Perspectives of the 16th issue of the Springer's series **Eurasian Studies in Business and Economics**, which is the official book series of the Eurasia Business and Economics Society (EBES, www.ebesweb.org). This issue includes selected papers presented at the 29th EBES Conference—Lisbon that was held on October, 10–12, 2019, in Lisbon, Portugal. The conference is hosted by the *ISCTE-IUL Instituto Universitário de Lisboa.*

Amine Tarazi from the *University of Limoges,* France, **Robert William Vivian** from the *University of the Witwatersrand*, South Africa, and **Christo Auret** from the *University of the Witwatersrand*, South Africa, joined the 29th EBES Conference as keynote speakers. During the conference, participants had many productive discussions and exchanges that contributed to the success of the conference where 312 papers by 551 colleagues from 52 countries were presented. In addition to publication opportunities in EBES journals (*Eurasian Business Review* and *Eurasian Economic Review*, which are also published by Springer), conference participants were given the opportunity to submit their full papers for this issue. Theoretical and empirical papers in the series cover diverse areas of business, economics, and finance from many different countries, providing a valuable opportunity to researchers, professionals, and students to catch up with the most recent studies in a diverse set of fields across many countries and regions.

The aim of the EBES conferences is to bring together scientists from business, finance, and economics fields, attract original research papers, and provide them with publication opportunities. Each issue of *the Eurasian Studies in Business and Economics* covers a wide variety of topics from business and economics and provides empirical results from many different countries and regions that are less investigated in the existing literature. All accepted papers for the issue went through a peer review process and benefited from the comments made during the conference as well. The current issue covers fields such as accounting/audit, banking, economics of innovation, empirical studies on emerging economies, international trade, labor economics, public economics, and regional studies.

Although the papers in this issue may provide empirical results for a specific county or regions, we believe that the readers would have an opportunity to catch up with the most recent studies in a diverse set of fields across many countries and regions and empirical support for the existing literature. In addition, the findings from these papers could be valid for similar economies or regions.

On behalf of the series editors, volume editors, and EBES officers, I would like to thank all presenters, participants, board members, and the keynote speakers, and we are looking forward to seeing you at the upcoming EBES conferences.

Istanbul, Turkey Ender Demir

Eurasia Business and Economics Society (EBES)

EBES is a scholarly association for scholars involved in the practice and study of economics, finance, and business worldwide. EBES was founded in 2008 with the purpose of not only promoting academic research in the field of business and economics but also encouraging the intellectual development of scholars. In spite of the term "Eurasia," the scope should be understood in its broadest terms as having a global emphasis.

EBES aims to bring worldwide researchers and professionals together through organizing conferences and publishing academic journals and increase economics, finance, and business knowledge through academic discussions. Any scholar or professional interested in economics, finance, and business is welcome to attend EBES conferences. Since our first conference in 2009, around *12,459* colleagues from *99* countries have joined our conferences and *7091* academic papers have been presented. ***EBES has reached 2375 members from 87 countries.***

Since 2011, EBES has been publishing two journals. One of those journals, *Eurasian Business Review—EABR*, is in the fields of industrial organization, innovation, and management science, and the other one, *Eurasian Economic Review—EAER*, is in the fields of applied macroeconomics and finance. Both journals are published quarterly by *Springer* and indexed in *Scopus*. In addition, EAER is indexed in the *Emerging Sources Citation Index* (*Clarivate Analytics*), and EABR is indexed in the *Social Science Citation Index (SSCI)* with an impact factor of 2.222 as of 2019.

Furthermore, since 2014 Springer has started to publish a new conference proceedings series (**Eurasian Studies in Business and Economics**) which includes selected papers from the EBES conferences. The 10th, 11th, 12th, 13th, 14th, 15th, 16th, 17th, 18th, 19th, 20th (Vol. 2), and 24th EBES Conference Proceedings have already been accepted for inclusion in the *Conference Proceedings Citation Index—Social Science & Humanities (CPCI-SSH).* Subsequent conference proceedings are in progress.

We look forward to seeing you at our forthcoming conferences. We very much welcome your comments and suggestions in order to improve our future events. Our success is only possible with your valuable feedback and support!

With my very best wishes,

Klaus F. Zimmermann
President

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Part I
Accounting/Audit

Insights from Lobbying Research on the Accounting Standard-Setting Process Through Comment Letter Submissions

Lucía Mellado and Laura Parte

Abstract The purpose of this paper is to provide an overview of lobbying research through comment letter submissions in the accounting standard-setting process. First, we review the theoretical framework that supports lobby behavior in accounting standard-setting process. Second, we examine the participation in lobby process and constituents' incentives to participate worldwide. Third, we analyze the studies that focus on the content of comment letters to understand the position and argument of participants, and finally, we examine the effectiveness of a lobbying strategy through the relationship between the inputs (comment letters) and output (final standard). This paper identifies fundamental questions that remain unanswered and offers avenues for future research.

Keywords Lobbying · Comment Letters · IASB · FASB

1 Introduction

The accounting normative process is a subject of interest to the accounting community. The determination of standards has been considered not only a technical process but also a political process, due to the observation of pressures on the standard-setting (Gipper et al. 2013). In this context, the literature has defined "lobbying" as all of the actions taken by stakeholders to influence the regulatory process to defend their own interests (Sutton 1984). The differences among national regulators, for example, whether they are public or private, and their formal procedures or participation systems are important to study issues such as legitimacy or technical quality. Traditionally, the Unites States national standard-setter has been a reference for accounting regulation. However, in recent decades, the International Accounting Standards Board (IASB) has captured most of the attention of academics

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and practitioners because of its global scope, and mainly after the convergence project conducted jointly with the United States Financial Accounting Standards Board (FASB).

Hence, constituent participation in the international regulatory process has increased compared to previous national accounting projects (Jorissen et al. 2013). The FASB and the IASB follow a formal process in setting standards that encourages broad participation (Holder et al. 2013). Nevertheless, the methods used by interested parties to exert pressure on standard-setters can be numerous. Georgiou (2004) distinguishes between direct methods (e.g., participation in discussion panels) and indirect methods (e.g., using the media as a mediator to influence). Subsequently, Kwok and Sharp (2005) add the distinction between formal methods (participation in a standardized consultation process such as the submission of comment letters) and informal methods (e.g., private conversations with single members of the standard-setting institution). The submission of comment letters has been considered one of the most accessible methods and the most visible action for participating in the regulatory process. Comment letters contain a large amount of valuable information that researchers can infer from their analysis (e.g., information about the writers' characteristics, their incentives, their position relative to accounting rules, a strategy to persuade, and expectations).

The aim of this paper is to provide an overview of the lobbying literature in the accounting standard-setting process through comment letter submissions (particularly to the IASB and FASB). First, we explain the constituents' and regulators' behavior in the accounting standard-setting process from a theoretical perspective. Second, we classify the previous literature according to the following objectives: understanding participation in the process and inferring from text or content analysis. Finally, we examine the effectiveness of a lobbying strategy through the relationship between the inputs (comment letters) and output (final standard).

The paper contributes to the literature in lobbying research in different ways. First, it provides an overview of a theoretical framework to understand how political forces may influence the standard-setting process through comment letters. Early works consider self-interest and economic effects to be fundamental factors in a lobbying strategy (Watts and Zimmerman 1978; Sutton 1984). To gain a better understanding of the lobbying phenomenon, recent papers extend these arguments by providing a more robust framework to design future studies. For example, they integrate traditional accounting and economic theories with other strands in the social sciences, such as political science or psychology. The conjunction of different theories contributes to an enhancement of a more extended theoretical framework.

Second, this paper reviews the instrument, sample, and methodology used by researchers to achieve their objectives, focusing on both their weaknesses and their strengths. The main instrument is the analysis of comment letters to understand the decision to submit comment letters, the power of different groups, the characteristics of participants, the potential benefits of being involved in the regulatory process, and the letters' effectiveness (relationship between the inputs and the output). Although early research has used single accounting standards and small samples primarily due to the complexity of working with manually collected data, extended research has overcome some of the weaknesses of preliminary papers, thereby increasing the scope of studies through multiple accounting standards and making it possible to maximize the sample and generalize the results. In fact, the combination of quantitative and qualitative data makes it possible to obtain a more complete view of the accounting standard-setting process with respect to early results.

Third, we identify fundamental questions that remain unanswered and that can be developed by future studies. We present some avenues at the end of each section, and we provide an agenda for future research in the conclusion section. Finally, we discuss the limitations of comment letters as a methodology for analyzing the accounting standard-setting process.

The structure of this paper is as follows. Section 2 provides an overview of the main theoretical aspects behind lobbying research. Sections 3 and 4 review the literature that explains the decision to submit comment letters (participation) and the literature that analyzes the substance of comment letters (content analysis), respectively. Section 5 examines the literature that investigates the usefulness of comment letters for constituents and regulators (the input-output relationship). Finally, Section 6 provides the conclusions, the future avenues, and the limitations of the paper.

2 Theoretical background

2.1 The role of theories in explaining regulators' behavior in the accounting standard-setting process

The IASB and the FASB seek to develop high-quality accounting standards to take decisions about the firms. They have also been involved in a convergence project to reduce accounting standards divergences between both regulatory bodies. Supranational government and domestic countries provide political legitimacy to the regulatory bodies. Consequently, the IASB and FASB work continuously to guarantee their technical expertise (substantial legitimacy) as well as to guarantee that the process is transparent, independent, considering the public interest (procedural legitimacy) (e.g., Burlaud and Colasse 2011). Legitimacy theory is being developed in the field of the standard-setting process (e.g., Botzem 2014).

The political and institutional environment surrounding the IASB and the FASB is complex but particularly in the case of the IASB because there are several formal and informal institutions and entities that can influence it at different levels: (1) authority level: national governments, supranational governments, or institutions such as the International Organization of Securities Commissions (IOSCO); (2) organizational level: national accounting standard-setters, advisory bodies, auditors and accounting associations, financial and industry associations; and (3) participation at the constituent level (business and investors) (Baudot and Walton 2014). In this paper, we focus on the third level to understand how standard-setters react to the lobbying activities of constituents. Lobbying activities in the FASB standard-setting process have been studied for several decades (Gipper et al. 2013).

The decision-making process to review or adopt a new accounting standard is complex. According to Cortese and Irvine (2010), it is like a "black box." To better understand this "black box," economic theories of regulation are divided into three main approaches that explain the behavior of standard-setters: the public interest model, regulatory capture theory, and the ideology model. The public interest model (Posner 1974) holds that accounting rules are necessary public goods in unregulated markets and that standard-setters make socially efficient decisions because the interest payoff of regulators may be positively correlated to social welfare (Polk 2002). In Sunder 1988, Sunder already noted the necessity to have a structure that does not let the Boards to act unless they strongly consider the standard may be socially desirable. In contrast, the model proposed by regulatory capture theory (Stigler 1971) suggests that firms in the regulated industry "capture" the regulator, thereby opposing social efficiency. Watts (2006) explains that the accounting regulators have the responsibility to define the Agenda for reviewing, amending, or propose new accounting standards. During the process, it is important to guarantee the market equilibrium and prevent the potential lobby of special interest group or political forces that pursue their self-interest. Also, there is an intermediate theory, the ideology model, in which regulators are moved by their own beliefs and attempt to achieve public welfare but consider useful information concerning the effects of proposals provided by interested parties (Kothari et al. 2010).

The ideology theory is of particular interest for understanding the role of standard-setters in the accounting normative process. Allen and Ramanna (2013) argue that the background of board members is important for determining the accounting style. If they have a prior carrier in financial services, then they propose fair-value methods to increase the relevance instead of the reliability. The opposite results are found for members affiliated with the Democratic Party. The influence exerted by Big 4 members has also been studied (Botzem 2014), but the need for technical expertise is undeniable. Drawing on organizational theories, some studies do not consider the individualistic approach of the board, instead assuming the collective role of the boards as groups of interacting individuals with different ideologies. Morley (2016a) calls this approach internal lobbying, that is, the effects of the existing division into ideological groups but relaying in the IASB the final outcome.

Nonetheless, to determine the position of regulators and their attitude toward constituents, we consider essential to examine the entire due process. The steps of the IASB are as follows: (1) setting the agenda (mandatory); (2) planning the project (mandatory); (3) developing and publishing the Discussion Paper (DP), including public consultation (facultative); (4) developing and publishing the Exposure Draft (ED), including public consultation (mandatory); (5) developing and publishing the Standard (mandatory); and 6) procedures after a Standard is issued (mandatory). Comment letters are submitted during the public consultation period of the third and fourth steps. It is interesting to complement comment letters analysis with formal and informal mechanisms during the due process, such as information from consultative groups, staff documents, and interviews with the key actors, to obtain a more complete view of the process and extend the conclusions of previous papers.

Studies on the accounting standard-setting process are changing their focus to also include the regulator's perspective. The theories that support these advances are based on organizational studies, political science, and psychology. Recent papers on the behavior of standard-setter are analyzing the background of board members and the presence of ideology groups. Additionally, studying the manner in which standard-setters perceive constituents' opinions in comment letters and how they are reflected in the final standard requires theoretical support that may be reinforced. To show a global perspective, studies can include the examination of the evolution of projects, the formation of the agenda, and the timing of due process, among others.

2.2 *The role of theories in explaining constituents' behavior in the accounting standard-setting process*

Most empirical studies consider the 1970s to be the beginning of lobbying research due to the "rise of economic consequences" (Zeff 1978). Preparers changed the objective from simply presenting reporting information to incorporating economic effects. Consequently, the previous literature builds models that link the participation of constituents in standard-setting to the economic effects of accounting rules (Watts and Zimmerman 1978) and the type of accounting issue under consideration (Sutton 1984). The general assumption of these theories is that participants are moved by their self-interest. The classification of Durocher et al. (2007) is very useful in regard to understanding the basis of constituents' behavior. They classify these theories into three streams: the Economic Theory of Democracy (ETD), Positive Accounting Theory (PAT), and the Coalition and Influence Group (CIG).

The decision to submit or not submit a comment letter is defined as a cost-benefit function, as Sutton (1984) proposes on the basis of the rational choice theory. Considering the ETD, Sutton (1984) argues that a rational entity allocates resources to lobbying only if the benefits compensate for the costs, which is compared with a political system and the decision to allocate a vote. Then, if the participants pursue its own benefit instead of the public interest with values such as honestly, loyalty, or morality, it can be considered an opportunist behavior.

Based on the ETD, lobbying research has focused on studying constituents' participation in the process to determinate the benefits from lobbying. Participation is expected to be more concentrated among those who are more economically affected by the standard (e.g., considering whether a proposal is controversial) (see, e.g., Tandy and Wilburn 1992; McLeay et al. 2000; Giner and Arce 2012; Chircop and Kiosse 2015).

The PAT is also a relevant theory, which is based on the works of Watts and Zimmerman (1978) and explains the preparers' incentives to participate in lobby. Some accounting regulatory proposals impact on financial figures involved in other contracts, such as debt covenants or manager compensation. The proposals can lead to unintended consequences and the redistribution of wealth among different actors, which is in line with the postulates of agency theory. Empirical studies suggest that changes in accounting standards and both their expected and unintended consequences may influence the willingness of preparers to participate and their global position with respect to the proposals. Although PAT excludes the group of users as a potential objective, it seems logical to consider that this group is concerned by economic incentives.

Previous researches assumed a pluralistic conception of power (Jorissen et al. 2006; Giner and Arce 2012). They have primarily focused on answering the following questions: who is involved in lobbying actions and why. Questions such as how to exert pressure and the effectiveness of instruments in influencing in the standard-setter's decision are less explored in the empirical literature.

The third stream of research proposed by Durocher et al. (2007)—the CIG—is more focused on analyzing the effectiveness of groups and alliances in the standard-setting process. They argue that the potential alliances and cooperation between groups may exert pressure on the accounting standard-setting process, including groups with high power that face the process non-pluralistic. Hence, Metcalf Report (1976) points out that large audit firms exert a high influence on FASB. Puro (1984) explains that large audit firms can join their clients to create a strong coalition. However, MacArthur (1988) does not support the above arguments. Cortese and Irvine (2010) also note coalitions among powerful groups and their influence over regulators (Kwok and Sharp 2005; Yen et al. 2007).

The concept of power is a key feature in lobbying studies. Most previous studies assume that power is distributed through all constituents addressing a comment letter but that it can vary across constituents (Morley 2016b). We think that conduct a more in-depth analysis of theories that explain the behavior of a powerful accounting firms is a challenge for studies focusing on the IASB context. Also the empirical approach to test the influence of more (less) interested groups can help to understand the accounting standard-setting process through comment letter submissions. Futures challenges are related to finding a method to measure hidden lobbying activities or indirect lobbying, or to quantify the effect of other factors, e.g., media. Additionally, the combination of several methods to lobby may be a signal of how interested an entity is.

3 Literature on participation: the decision to submit a comment letter

3.1 Participants' profile in the process

Sutton (1984) divides the participants in the standards development process into preparers of financial reporting and users to explain the differences in decisions by collectives of interest. Empirical studies show that preparers are the collective that participates the most in the accounting standard-setting process (e.g., Tandy and Wilburn 1992; Jorissen et al. 2006; Jorissen et al. 2012; Giner and Arce 2012; Kosi and Reither 2014; Mellado and Parte 2017a). The literature considers self-interest and the probability of influencing the outcome to be the key factors. Compared to users, preparers are richer and less diversified, and their economic interests are more homogeneous. These characteristics reduce the cost of submitting a comment letter and increase the possibility of success (Sutton 1984). Even in the case in which users are wealthier than preparers, they are less interested in any standard because of their diversified portfolios (Giner and Arce 2012). Additionally, the empirical research shows that preparers participate significantly more when proposals have a major impact on a firm's financial statements (e.g., Jorissen et al. 2012).

In contrast to preparers, the group formed by auditors has been less studied in the literature. Different theories seek to predict the behavior of auditors focusing on the firms' motivation to participate: (1) auditors are expected to lobby on behalf of their clients and to the transfer of wealth (Watts and Zimmerman 1982; Puro 1984); (2) auditors are expected to lobby to protect their own interest according to their inclination toward conservatism to preserve rule reliability and avoid litigation risk (Hilton-Meier et al. 1993, and Mora et al. 2015); (3) auditors are expected to lobby to protect public interest or users financial statements.

The groups formed by users, academics, or national standard-setters are also scarcely explored by the literature. Giner and Arce (2014) focus on the participation of national standard-setters, providing an interesting contribution to the field. The evidence suggests that the participation of national standard-setters is not continuous during all the process, being higher at the end of the projects, which is consistent with institutional theory. It is also noted that national standard-setters search a convergence process with the IASB in order to gain legitimacy with the participation. Findings also reveal that the participation of other collectives (i.e., academics) is low.

In summary, extended research on lobbying behavior through comment letters has primarily focused on the behavior of preparers, with the following as the main issues being examined: the lobbyist profile, the incentives to participate, the period of time, the methods of performing lobbying, and the effectiveness of lobbying actions. However, with respect to preparers, the research may be extended in several ways. For example, the evidence on financial firms is still preliminary. The role of financial firms as preparers and users is also an interesting question. Auditors are also an interesting collective in the accounting standard-setting process, and little evidence on this group exists.

3.2 Corporate characteristics associated with participation

Watts and Zimmerman (1978) introduce the assumption that comment letters reflect the position of managers using PAT. This theory identifies three factors that explain the manager's incentive to incur in several accounting practices: the political cost hypothesis, contractual arrangements associated to debt covenants, or associated costs to manager remuneration and compensation. Based on this framework, Kelly (1985) and Francis (1987) examine the decision of firms to participate in the FASB standard-setting process through comment letters versus firms that do not. Kelly (1985) finds that size is the main corporate characteristic in the decision to lobby. Although the empirical model includes interesting variables such as management ownership, the evidence is limited due to the small sample. To overcome this problem, Francis (1987) uses a large sample and shows that size and adverse financial statement effects are key factors that explain lobbying behavior.

There is a consensus in the literature that larger firms submit more comment letters than smaller firms across all industries around the world (e.g., Sutton 1984; Kelly 1985; Francis 1987; Georgiou 2005; Jorissen et al. 2012; Kosi and Reither 2014; Santos and Santos 2014; Mellado and Parte 2017a). Smaller firms have less discretion (and power) to engage in lobbying behavior; they often participate through trade associations.

Empirical research on preparers' incentives driven by compensation management contracts and the debt covenant hypothesis from the positive accounting perspective are still scarce, and the results do not show a clear direction. Using the accounting regulation of the oil industry, Santos and Santos (2014) find an association between lobbying strategies and firm size but a weak association with compensation management contracts. Georgiou (2005) and Koh (2011) show that debt covenant effects influence corporate lobbying behavior, but for example, Kelly (1985) does not find any association. The proxy used in empirical research to measure debt covenants can explain the results. Although most empirical studies use the debt-to-equity ratio, some authors argue that the debt covenant is a better proxy (see, e.g., Georgiou 2005). The literature also argues that profitability is a good proxy of the decision to participate in the accounting standard-setting process (Jorissen et al. 2012; Kosi and Reither 2014; Santos and Santos 2014).

Empirical studies also show differences by industry when examining lobbying participation. The industries most affected by accounting standard projects are more likely to participate compared to industries that show less exposure to accounting figures. For example, in the leasing accounting project, companies from sectors that use operating leases more intensively, such as transport services, retail, restaurants, hotels, and utilities, tend to lobby more than companies in other industries (Mellado and Parte 2017a).

Kosi and Reither (2014) state that firms lobbying in the past may have experienced economies of scale. It could be reasonable to make more effort in an early stage of the project and decrease the effort in subsequent periods, due to marginal cost. However, it could be also logical to continue with lobby strategy (instead to decrease in subsequent periods) when the participant achieved success the first time (Kosi and Reither 2014). More recently, Mellado and Parte (2017a) show that the decision to submit a comment letter in a lease accounting project is associated with firm age or experience.

Another stream of research focuses on the association between the lobbying strategy and variables such as management ownership and internal and external corporate governance. Koh (2011) analyses lobbying during the “stock option” standard-setting process conducted by the FASB in 2004. He concludes that small firms are more likely to participate in the process when similar firms in the industry have also lobbied and when they have higher board independence. Kosi and Reither (2014) find that variables such as size, profitability, past lobbying experience, and financial constraints are positively related to lobbying decision. Furthermore, less concentrated ownership’s firms tend to lobby more. Chircop and Kiosse (2015) show that the likelihood of firms to submit a comment letter is positively associated with pension fund size and that the number of shares available for trading is a positive influence. It is also interesting to extend the proxies used in these studies to better understand the lobbying strategy. For example, political connections, enforcement control, and more firm variables can improve the results and implications.

In terms of methodology, prior papers use univariate test to examine lobbyist participation (e.g., Georgiou 2005; Giner and Arce 2012; Kosi and Reither 2014; Mellado and Parte 2017a; Mellado and Parte 2017b), discrete choice model (such as probit or logit) to examine the probability of submitting a comment letter and the variables that explain the decision to participate o submit a comment letter (e.g., Francis 1987; Koh 2011; Jorissen et al. 2012), or multinomial regression to examine the probability of submitting one, two or more comment letters (Kosi and Reither 2014; Santos and Santos 2014; Mellado and Parte 2017a).

Regarding empirical design, de Figueiredo and Richter (2014) find two main challenges for lobbying studies: omitted variables (hidden lobbying activities) and endogenous selection into the lobbying process. Both are related and pervasive. In the first case, there are some unobserved variables not included in the model that can be correlated with the error term in a regression, resulting in an incorrect causal inference. The decision to lobby by an interest group is not a random event. Therefore, not permitting random selection (in which some interest groups will be assigned to lobby and others not) can lead to biased results because of a possible correlation between the group assignment process and outcomes. Consequently, researchers may pay attention to these challenges in future research by finding techniques to measure unobservable relevant variables for lobbying and applying methods to reduce the risk of endogenous selection to increase the robustness of statistical analysis.

In this sense, the decision to submit a comment letter and their determinants, with a robust framework, is an area of special interest in this field. A fruitful avenue is to continue developing the theories and find additional explanation to understand the reasons for lobbying, including the sociological and psychological theories that can help to comprehend certain human behaviors. Also it is important to advance in small collectives, which are scarcely examined until the date.

3.3 Jurisdiction

A seminal study by La Porta et al. (1998) provides a comprehensive investigation of country-level attributes, setting the basis for future cross-country studies. Subsequent empirical studies show that international financial reporting and accounting practices are influenced by variables such as economic factors (capital market development, per capita Gross Domestic Product (GDP)), national legal systems (political systems, tax mechanisms, investor protection, enforcement systems, securities regulation disclosure requirements), cultural values, and social attitudes, among others.

The IASB is a global standard-setter that seeks to make financial information comparable worldwide; therefore, it needs to have international legitimacy. However, country participation is not homogeneous worldwide and the academia and authorities have paid special attention to this issue. Empirical researches find that factors such as legal factors, cultural variables, institutional factors, informational environments, etc., confirm a different behavior in geographical participation (e.g., Orens et al. 2011; Jorissen et al. 2013; Larson and Herz 2013; Dobler and Knospe 2016; Mellado and Parte 2017b).

Orens et al. (2011) explain that civil law countries participate more because they are less familiar with the accounting standard-setting process. Jorissen et al. (2006) confirm that geographical participation depends on the rule of law, enforcement controls, tax compliance, and earnings management. Jorissen et al. (2014) also find that the participation is high in developed countries compared to less developed countries. Considering individual countries, constituent from countries such as the United Kingdom, the United States, Australia, Hong Kong, and Switzerland participates more compared to constituent from countries such as Japan, India, Brazil, or Africa (Jorissen et al. 2013; Dobler and Knospe 2016).

Hofstede (2001) introduces cultural variables (individualism, power distance, uncertainty avoidance, or masculinity) creating an index for every country in the sample. Previously, Gray (1988) provides accounting classifications between countries (such as professionalism vs statutory control, uniformity vs flexibility, conservatism vs optimism, and transparency vs secrecy) which some relationship with Hofstede's country division. Empirical studies have used both as determinants of the decision to participate or participation intensity at the country level (Jorissen et al. 2013; Larson and Herz 2013; Dobler and Knospe 2016; Mellado and Parte 2017b). As a part of the culture of a country, language barriers can influence the decision to lobby.

Regarding the use of IFRS by jurisdiction and the influence of IFRS differences in the lobbying decision, the evidence is mixed. Larson and Herz (2013) suggest that higher differences with IFRS in historical accounting practices lead to a higher submission of comment letters. In contrast, Holder et al. (2013) find that countries exposed to IFRS present more comment letters with an unfavorable opinion. Some studies explore the relationship between non-compliance with standards caused by corruption and lobbying. The majority of studies suggest that they are substitutes, assuming that they are negatively associated with one another (Jorissen et al. 2006; Harstad and Svensson 2011). Under a regulatory constraint, firms have the option to bribing bureaucrats to avoid rules or lobbying through the accounting standards process. The first is positively associated with the poverty trap due to restrain lobbing strategies (Harstad and Svensson 2011). The second seems to be effective for political influence. It implies a greater investment but guarantees a better quality of reporting and credibility of the market in the long term.

Prior research uses the number of comments letters submitted by a country as a proxy to lobbying intensity (Larson and Herz 2013). To measure the variables is common to use absolute values (Jorissen et al. 2012; Dobler and Knospe 2016) or relative values such as deflated variables by listed firms (Jorissen et al. 2006) or economics variables such as capital market development and per capita GDP (Jorissen et al. 2013). The methodology used in this area is very similar to that of empirical papers that focus on investigating the corporate determinants of lobbying. Generally, they use a univariate methodology to test significant differences among country variables and linear regression models (OLS regressions) to test the association between dependent and independent variables (e.g., Jorissen et al. 2012; Jorissen et al. 2013; Larson and Herz 2013; Dobler and Knospe 2016).

Summing up, to examine the lobby is common to use large samples with several accounting standards projects (since the early stage to the final publication), including a wide set of variables and factors associated to firm levels and country factors. As a result, the evidence contributes toward our lobby understanding worldwide. Accounting regulators could benefit from these results not only to understand lobby motivations and incentives for different collectives (including auditors and firms) and country factors but also to anticipate several behaviors in the accounting standard-setting projects. Considering the objective to gain legitimately worldwide, the participation to certain countries (Western countries) and emerging countries should be an objective for accounting setters. Hence, researchers should be focused on understand such low participation of certain countries, including appropriate countries variables—microeconomic and macroeconomic factors.

Several limitations have been detected. The country representation though databases is not representative; large amounts of data exist for developed countries, but limited data are available for small and emerging countries. This situation makes it difficult to fully compare the results. A deeper analysis of country-level variables is also required to identify possible correlations and interrelations between variables. Recent studies include a large set of variables to find differences between countries without appropriate controls. Researchers may also pay attention to the index included in the database that allows countries around the world to be classified because they typically assume that the classification holds constant during various periods.

4 Literature on the content of comment letters: positions and arguments

The content of comment letters is valuable to know the agreement or disagreement with the proposal and also the specific arguments and comments for constituents. However, researchers should analyze the content of comment letters by categorizing and codifying the text. Content analysis could be oriented to: (i) explore the structure of the text (number of words, number of questions answered, number of complex words, number of specific words, and expressions associated to the research objective, etc.); (ii) understand the meaning of words (what they are saying and why). This approach is more accurate to understand the reasons to lobby.

Previous work that uses the content analysis methodology has focused on the single-issue accounting standard due to the necessity to process the letters, which contains large amount of text (Yen et al. 2007; Holder et al. 2013). Examining a single-issue standard is easier to codify the arguments of interest, the lobbying position (Georgiou 2005), the meaning of the comments (Giner and Arce 2012), and accuracy in the content of the letter. Puro (1984), Giner and Arce (2012), Holder et al. (2013), and Anantharaman (2015) identify the global position of respondents through three categories: agreement, opposition or, occasionally, neutrality. Also, they emphasized the relationships between the characteristics of respondents and their position in the letter (e.g., Koh 2011).

Yen et al. (2007) identify five types of arguments in comment letters: definitions, scope, due process, outcome-oriented, and others. Later, Mora et al. (2015) classify the arguments in comment letters submitted to lease DP issued by IASB in 2009 in more categories: conceptual framework arguments (concepts, subjectivity, cost/benefit, anti-abuse, business model. . .) and economic consequences arguments.

Other studies focus on understand the arguments by groups of respondents. Regarding the concept of control, Stenka and Taylor (2010) consider two groups: corporate versus non-corporate. They analyze arguments and find that corporate respondents are more concerned about specific subjects. Giner and Arce (2012), using comment letters on ED for IFRS 2 issued by IASB, identify arguments related to recognition, valuation, and allocation. The evidence suggests that constituents provide arguments when they do not agree with the proposal. Hence, preparers and consultants use more arguments related to the economics effects than conceptual arguments are used less frequent than economics. In contrast, regulator uses mainly conceptual arguments. Mora et al. (2015) suggest that preparers know that conceptual arguments are the best strategy to influence regulators. Interesting, Stenka (2013) provides a rhetorical analysis through comment letters. The categories and dimension selected are as follows: (i) lexical choice, (ii) sound patterning, (iii) figurative language, and (iv) schematic language.

As noted above, content analysis is a methodology that is mainly used to draw conclusions through comment letters. The process of codification can be human-coded or computer-aided. Early studies have used the former to draw conclusions on the position and arguments driven by constituents. However, the commercialization of specific software to treat qualitative text has permitted an extension of the content analysis technique to conduct an in-depth investigation of the style, tone, readability, and linguistic complexity, among other aspects. This field of research is extensive and may be applied to the process of setting accounting standards, particularly in the context of comment letters.

However, this approach has several limitations. The large amount of work and time to ensure the outcome makes the process difficult and complex. To ensure valid inferences, it is necessary an appropriate, and sufficiently developed, coding system to guarantee reliability, i.e., so that research can replicate and reproduce the study under different conditions (see Yen et al. 2007). Then, the methodology for processing the text is a key factor due to the importance of providing consistent results that are to be used in future works. If researchers use a different method to code the text, the results and implications cannot be extrapolated to other studies.

5 The effectiveness of lobbying efforts

This section examines several relevant issues: (i) whether the comment letters submitted in the accounting standard-setting project are an effective tool to influence the final standards, and (ii) whether the lobbyists use specific strategies (i.e., what type of arguments) to effectively pursue regulators and guarantee lobbying success in the accounting standard-setting project; (iii) whether there are some collectives that influence more regulators (power of constituents).

The focus is to determine how much lobbying efforts impact the outcome (degree of lobbying success), i.e., whether lobbyists achieve their objectives. But first, lobbying success should thus be defined. Mcleay et al. (2000) and Giner and Arce (2012) consider that the acceptation of the proposals by the regulators makes a lobbyist more successful than the rejection of the proposals. Therefore, lobbying success may be defined as the capacity to convince regulators to adopt a similar position regarding final standard. Bamber and McMeeking (2016) extend the definition of success to the fact of "having your voice heard"; that is, they consider persuasion as a multi-stage process in which the discussion of the constituents' proposal is already a signal of lobbying effectiveness.

The researchers have the challenge to identify the expectations of accounting standard-setters and lobbyists to empirically test the successful of lobby behavior. Considering that regulators comply with social welfare (Polk 2002), their decisions will be oriented to maximize the public benefit. In this context, the strategies are divergent. Lobbyists pursue to influence the accounting standard process in order to achieve their objectives or self-interest, and regulators are mainly focused on guaranty the quality of accounting standards to maximize social welfare; then, lobbying success is located at the point at which both interests converge. Hansen (2011) explains that lobbying success is positively associated with the ability of respondents to transfer valuable information to regulators. Therefore, the ability to anticipate the objectives of accounting setters should be a fruitful barometer of lobbying success.

The evidence in this stream is mixed. Yen et al. (2007) find an association between the specific arguments included in the comment letters and the most significant changes included in an early stage of the project (the EDs) compared to the final standard. They explain that the FASB attempts to understand the positions of participants and that the content of the comment letters persuades the regulators. Other authors suggest that constituent coalitions can capture the standard-setting process to secure favorable regulation (Cortese et al. 2010).

The studies also show that preparers persuade regulators (Kwok and Sharp 2005); auditors persuade regulators in contrast to business preferences (McLeay et al. 2000) and support the objectives pursue by preparers, conditioned to the help of auditors or academics; users are able to persuade regulators (Seamann 1999); there is no influence by interested groups, at least significant (Buckmaster et al. 1994). Anantharaman (2015) focuses on the impact of comment letters on changes between EDs and final standards concluding that the participation of opposing parties was ineffective.

To the best of our knowledge, there are few studies focusing on lobbying effectiveness, particularly on the IASB. Hansen (2011) finds that lobbying success depends on two factors: the ability of constituents to communicate high-quality information to the IASB and the credibility of the comment letters submitters. This is a fruitful avenue for future research in the field.

Regarding power among interested groups, the evidence is mixed. Kwok and Sharp (2005) show that preparers were the most influential group. Conversely, Giner and Arce (2012) suggest that every interested party has the same power in the process in the comment letters submitted to all consultation periods of the share-based payment project. These authors also conclude that conceptual arguments are more useful for regulators than economic arguments; therefore, they may be determinants for lobbying effectiveness.

Bamber and McMeeking (2016) introduce innovation into the study of pervasiveness from a theoretical and a practical perspective. Drawing on legitimacy theory, they analyze comment letters on ED 7, separating comments that request amendments (named outcome-oriented under Yen et al. 2007) from other comments and introducing a weighting system to prevent the comments from being treated equally, designating them minor, moderate or major. Subsequently, they reconcile the ED with the Standard (IFRS 7) on a word-by-word basis to identify changes and to observe whether they coincide with those proposed. Then, reviewing IASB documentation, they study what the discussed issues are and whether they impact on the outcome, given that the discussion is the first step. The results are related to the respondent and to the jurisdiction: accounting firms are significantly less influential; US comments are found to be more useful to the process than UK comments.

The methodology used to analyze lobbying effectiveness—that is, the relation between the input and the output—is a combination of qualitative and quantitative methods. Qualitative or content analysis methods focus on the identification of the strategy and position through the content of the comment letters (since an early stage until the last stage) and also to identify the final position adopted by the regulators. The comparison between what the constituents want and what the standard-setters adopt in the final accounting standard could be conducted through models that allow to test the positive association between groups of arguments, considering the predictor variable and the outcome.

Studies that analyze narratives and predict the impact on standard-setters are interesting to the academia because they provide recommendations to regulators and constituents. This field will provide valuable opportunities for advances in this area. It could be also interesting to combine content analysis to quantitative models to detect lobbyist strategies from different groups.

6 Conclusion

This paper presents a review of the lobbying literature through comment letters in the accounting due process. This study is motivated by a growing interest of different collectives in the international accounting standard-setting process. Empirical research has provided important insights into the lobbying phenomenon; however, the review of the literature shows some gaps that could be covered in future research. In addition, the study includes a critical perspective that can help for future researches.

Comment letters have been considered a useful instrument to measure participation because of the fact that they are easily available due to their public and formal character and that they are supposed to reflect invisible lobbying methods. Empirical research on the accounting standard-setting process through comment letters has mainly focused on the following: i) identifying the interested subjects or groups that submit comment letters, understanding the reasons for participation, ii) understanding positions and arguments, and iii) examining the success of comment letters to persuade regulators.

Some opportunities for future researches are as follows:

- Regarding theoretical framework of lobbying studies, the mapping from theory to the empirics is occasionally quite fragile (Gipper et al. 2013). Future studies may reconsider and criticize the general assumptions driving by previous papers to better analyze and understand the lobbying behavior. The majority of the studies uses a restricted approach based on classical economic rationality. A complex body of theories stems from the main accounting research, but some theories also draw from political science, sociology, and psychology. The primary challenge is the integration of theories with a logical and accurate interpretation of the explanatory factors of participation, the analysis of strategy, and the prediction of effectiveness.
- Although comment letters sent by preparers have been extensively analyzed from a technical perspective, little evidence exists about other collectives such as professional and non-professional investors, academics, trade associations, and

the accounting profession, among others. One of the main reasons is that the number of comment letters from these collectives is lower than the number of comment letters sent by preparers. More attention is required by the accounting profession community to be sufficiently involved in every project. For example, we consider to be interesting the following questions: Do accounting firms focus on their clients' position? Do they favor the complexity of rules to increase their income from fees? Or do they tend to avoid the risk of litigation? Do the Big 4 have special influence over standard-setters due to their knowledge, expertise, experience, resources, and connections, or is the opposite true?

- Lobbying in accounting standards requires a deeper analysis of the influence of all constituent groups. Most of the empirical works have assumed that each constituent has a similar power and ability to influence the standard-setting process through the attendance of comment letters and vote-counting systems, but it is possible that formal institutions such as European Financial Reporting Advisory Group (EFRAG) and European Securities and Markets Authority (EASM) influence more than other groups such as trade associations (see, e.g., Morley 2016b). Political theories about the typology and distribution of power are crucial in these studies. Furthermore, collective influence (CIG) may be differentiated from individual power. Drawing on the discussion of the proposals of specific constituents by accounting standard-setters, interviews with key actors of the accounting standard-setting process, staff documents, and working papers that contain responses to the comment letters, among others, can help to better analyze the differences in constituents' influence on the standard-setting process. However, the challenge is to weigh the degree of difference. To measure the powerful of constituents could be interesting to include variables such as "connections" or "expertise."
- Comment letter research is currently limited to one or two steps of the entire standard-setting process. Some researchers (see, e.g., Gipper et al. 2013) accentuate the importance of investigating political forces in previous and subsequent stages, for example, by investigating the manner in which potential topics are included (or excluded) in the agenda, considering that the IASB's discussions of potential projects occur in public meetings. Studying political forces throughout the due process, considering each step separately, may allow a better understanding of the lobbying phenomenon. One challenge is to study the political forces in these other steps that are unobservable except for some established formal mechanisms such as public IASB meetings for discussing the inclusion of potential projects or the existence of a consulting group during project planning.
- Special attention is required to the role of cross-country factors and firm specific variables in explaining lobbying in the accounting standard-setting process. Understanding the potential effects of cross-country factors, for example, the impact of the global economy on the fundamental activities of a firm, could be valuable for future work. Researchers require a complete understanding of the national settings to correctly identify the variables to revisit and extend the evidence of prior papers. That is, based on seminal studies in the field, researches

should consider the specific setting (local standards and local issues that can affect the output).

- Moreover, it is also interesting to find accurate factors to understand why lobbying is undertaken. For example, the most controversial projects, conceptual critical issues, the potential economic consequences of the proposals, and the main industries affected. Some authors have remarked on the differences between projects that affect disclosures and projects that affect income statements. Every proposal attracts the attention of different collectives with different characteristics. For example, constituents can be involved in the process consistently over time or in other case, can react only to specific proposals: What are the reasons? This approach may provide an avenue for further research.
- Regarding methodological issues, previous analyses of comment letters have used a quantitative approach. Combining the former with qualitative methodology allows to extend the conclusions of previous work and to obtain a better understanding of the entire phenomenon. Qualitative analysis is less commonly because the identification of variables inferred from text analysis presents two main challenges: the objectivity when the text is processed and the identification of key drivers and variables to make inferences and to minimize the considerable amount of time involved when the research is based on hand-collected data. Currently, advances in software for processing large amounts of text in a sophisticated manner can help researchers to obtain more robust conclusions. Empirical research based on content analysis (meaning-oriented or form-oriented) can also benefit from psychological theories to extend the results. From a practical perspective, analyzing the real intention, tone, or linguistic persuasive strategies of comment letters allows more robust conclusions.
- Other challenges for future studies are to find the relation between observable lobbying methods and invisible lobbying methods, to study indirect lobbying, and to include new models and techniques such as in-depth interviews, quasi-experiments, or structural equations.

Comment letters have been the most used proxy for lobbying activities in the accounting literature. However, the analysis of lobbying in the accounting standard due process through comment letters has some caveats. In general, prior empirical analysis circumscribed their studies to those that send a comment letter. However, the new accounting standard will affect to other many constituent that they did not participate through comment letters. It is also interesting to understand whether comment letters reflect hidden lobbying actions or hidden actors could be considered. Some studies base on a vote rather than seeing the complexity of the comments. We believe fundamental to use alternative methods to fully understand the lobbying phenomenon in accounting standard-setting (e.g., informational and financial strategies, and internal and external pressure). A more holistic approach is an avenue for moving forward.

Considering that the international standard-setting process is attracting attention from institutions, practitioners, and researchers, this systematic overview of seminal point out some avenues for future research. We believe that there is still room to make progress in this line of research.

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The Bulgarian Life Insurance Sector: Review and Analysis of Investments

A. Filipova-Slancheva

Abstract The aim of the study is to review and analyze the investment portfolios of life insurance companies in Bulgaria in view of the new regulatory requirements, actual business model trends, and current financial market environment. Investments are an integral part of the life insurance business model. In the study, Bulgarian life insurance sector is examined—regulations on investments, investment policy, and type of investments. Along with this, the accounting approach, accounting treatment, applicable accounting standards, and specific characteristics of all the financial instruments included in the portfolios of Bulgarian life insurance are examined. Last but not least, the paper also investigates whether asset allocation trends for Bulgarian life insurance companies are similar to the trends for European insurance sector.

Data for life insurance companies' investments are obtained from publicly available sources and include five-year period 2014–2018. Respective literature related to life insurance, financial instruments, investments, and accounting standards is reviewed. It is worth mentioning that life insurers are among the largest institutional investors in Bulgaria. Findings show that there have been new specific trends for Bulgarian life insurance companies, in terms of their investment portfolios, list of involved financial instruments throughout recent years. General conclusion is that investments of life insurance companies are changing and rebalancing is experienced with major factors strict regulatory investment limits, low yield environment, change of business model, and conservative risk management approach.

Keywords Life Insurance · Financial Statements · Investments · Accounting · Bulgaria

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1 Introduction

The insurance business is a business, where insurance companies receive premiums and invest these premiums until claims or benefits become due. In terms of life insurance, it provides an extensive selection of savings and retirement products, through which individuals and businesses can invest for the future. Investments are an integral part of the insurance business model and life insurance business model in particular. Based on the operating strategies of life insurers (claims toward life insurers are generally better estimated) enables life insurers to invest in less liquid assets and long-term assets, while following a buy-and-hold investing strategy. Accumulating long-term funds, in order to match assets and liabilities life insurance companies can provide long-term financing. It is worth mentioning that by long-term financing, they fulfill an important role in the real economy. For example, European institutional investors (pension funds, insurance companies) hold almost 30% of the outstanding European corporate bonds. Hence, their investment behavior could impact market price stability and funding for governments and companies. Academics and policy makers (Borio et al. (2001); Joint FSF-CGFS working group 2009; Papaioannou et al. 2013; Claessens and Kose 2013 and Houben and van Voorden 2014) confirm that procyclical investment behavior (sell assets as prices fall and buy as prices rise) by institutional investors (pension funds, insurance companies) hurts the stability of the overall financial system.

In terms of Bulgaria, the life insurance sector, being a part of insurance sector, is a crucial component of the financial system. This stems from the amount of premiums it collects, the scale of its investment, long-term investments along with the essential social and economic role it plays in covering individual and business risks. Bulgarian life insurance business comprises of life insurance companies, which are registered as a joint stock companies and are regulated by Financial Supervision Commission (FSC). Branches of foreign life insurance companies also operate on the Bulgarian life insurance market, which are not the subject of this study, as they are not supervised by local regulators and they are not included in the statistical forms. At the end of 2018, 16 life insurance companies were operating (11 are regulated and 5 are branches), with total assets EUR 844 mln. From this figure, total investments of life insurance companies are EUR 639.4 mln. (75% of total assets of life insurers), slight decrease compared to December 31, 2017—EUR 644 mln. and 79% of total assets.

In order to measure the development of the insurance market, a gross premium income (GWP) figure is calculated. For 2018, GWP of life insurance companies is EUR 229 mln. vs. EUR 219 mln. in 2017 and EUR 218.9 mln. in 2016. Unlike GWP, which quantifies the amount of premiums written as absolute value, insurance penetration takes into account the change in the role of the insurance sector for economic development. It can be summarized that the insurance penetration in Bulgaria and for life insurance sector in particular is 0.41%—much lower than the average EU insurance penetration of 7%. In Table 1, GWP and Life Insurance

Table 1 GWP and Life Insurance Penetration in Bulgaria

	Gross Written Premium (in EUR mln.)	Life Insurance Penetration	Gross Domestic Product (in EUR billion)
2014	174.1	0.40%	42.75
2015	200.1	0.40%	44.16
2016	218.9	0.40%	47.36
2017	219.0	0.40%	50.43
2018	229.0	0.41%	55.20

Source: Financial Supervision Commission 2018; National Statistical Institute 2019

Penetration in Bulgaria, historical date with these figures is shown for the period 2014–2018 (FSC 2018; NSI 2019).

Life insurers are among the largest institutional investors in Bulgaria. Apart from their importance for the financial system, there is a limited number of articles and research papers on the Bulgarian life insurance market, investments of Bulgarian life insurance companies, investment policy, type of investments, and accounting standards prepared by Bulgarian researchers. Let alone the accounting approach, treatment, and specific characteristics of financial instruments included in the portfolios of Bulgarian life insurance companies. Along with this, from academic perspective, comparison of the Bulgarian case with other EU member state investment trends case is interesting to be explored. Hence, this paper is enriching the existing Bulgarian literature in the field of life insurance, financial instruments, and their accounting treatment, as also shedding light on the comparison of Bulgarian life insurers sector with EU one.

This paper is contributing to the literature with its in-depth review and investigation of the investment portfolios of Bulgarian life insurance sector within certain five-year time frame, where external factors along with new regulations are affecting their investment portfolio composition, while extensively reviewing accounting treatment of the financial instruments included in their investment portfolios. The paper also investigates whether asset allocation trends for Bulgarian life insurance companies are similar to the trends for European insurance sector.

Main findings show that there have been new specific trends for Bulgarian life insurance companies, in terms of their investment portfolios, list of involved financial instruments throughout recent years. Investments of life insurance companies are changing and rebalancing, with bonds and shares having highest share—81% out of total investments as of 31/12/2018. Due to strict regulatory investment limits, low yield environment, change of business model and conservative risk management approach, debt securities and other fixed-income securities (bonds) at the end of 2018 are 70% of total investments vs. 58% 3 years ago. On the contrary, bank deposits have experienced significant decrease throughout the last 3 years—from EUR 50 mln. as of 31/12/2015 to EUR 11.7 mln. as of 31/12/2018 (from 8% to 2% of total investments). Based on the list of financial instruments in their portfolios, life insurers applied the following accounting standards for investments, as issued by

International Accounting Standard Board (IASB)—IFRS 4 Insurance Contracts, which automatically defines IAS 40 Investment Property, IAS 28 Investments in Associates and Joint Ventures, IFRS 11 Joint Ventures, IFRS 10 Consolidated Financial Statements (for control), IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement (respectively IFRS 9 Financial Instruments as of 2022, as IFRS 17 Insurance Contracts Allows Its Later Application), IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurements.

The paper is structured in six parts. First two parts are introduction in Bulgarian life insurance—historic review, actual financial standing of the sector from investment perspective, regulatory and legal framework, and applicable local requirements. The third part is on characteristics of the investments of life insurance companies from accounting perspective. The fourth part is on selected methodology, stemming from the research objectives. In the study, the following objectives are set—review of the relevant literature related to investments of life insurers and more specifically investments which cover technical reserves, investment policy, and type of investments. Along with this investments in major assets that cover technical reserves of life insurers in Bulgaria (shares, bonds, deposits, etc) are reviewed from the accounting approach perpspective, their characteristics, and applicable accounting standards perspective. Research objective is to compare and outline differences and changes in investment policy of Bulgarian life insurers before and after implementation of Solvency II, as well as investment trends for Bulgarian life insurance companies compared to EU ones. The fifth part is on findings and results, and the last part is conclusion. The paper is solely related to Bulgarian life insurance sector, its investment policy and type of investments, applicable regulatory framework, accounting approach, and accounting standards.

2 Investments and Investment Policy of the Bulgarian Life Insurers: Legal Framework and Type of Assets

Investments of the insurance companies are crucial business activity because consider management of technical and non-technical reserves of insurance companies. The regulation of the investment activity of the insurers in Bulgaria is based on the Insurance Code 2019, which governs the investment risk management system, competences, functional relationships, and risk management responsibilities, in accordance with the applicable regulatory requirements, including Council Directive 2009/138/EC (2009) or Solvency II Directive and Commission Delegated Regulation (EU) 2015/35 (2015) (hereinafter referred to as Directive 2009/138/EC and Regulation (EU) 2015/35).

The Solvency II Directive introduces a major change in the way insurance companies operate. It should be clear that directive and regulation require greater focus on the investments (assets) part of insurers' portfolios, as well as the risks they entail. Key principles in Solvency II are the introduction of risk-based capital requirements and the mark-to-market approach for balance sheet items. Also in this context, Solvency II is a completely new risk-oriented approach for measurement and evaluation of the financial position and strength of the EU insurance companies (Chobanova 2015). It is considered that the practical application of Solvency II will impose significantly higher capital to insurance companies. These requirements are expected to prevent the entities from the effective allocation of their own funds.

2.1 Solvency II and Local Legal Framework for Investments of Life Insurers

All investments held by insurers should be managed in accordance with the "prudence principle." The insurer should have at its disposal an adequate structure of liquid assets (investments/resources) at all times in its activity against commitments under insurance contracts. European directives require a direct link between insurance liabilities and assets. In summary, "prudent investor" principle is required from each insurer in its investing decision, i.e., to invest the allocated insurance reserves (technical reserves) and own funds from the position of the prudent investor.

Conservative regulation predetermines the insurer's investment policy by obliging it to cover the gross amount of technical provisions and the reserve fund so that the relative share of investments by type of insurance and its insurance portfolio structure ensures security, profitability, and appropriate liquidity for the specific insurance. In addition, the assets in which the insurer invests its technical reserves, and as such an investment they serve to cover them, should be diversified and allocated so that "no category of assets, investment market, or individual investment has a significant share."

Bulgarian Life Insurance Code strictly defines which assets are allowed to cover the technical reserves of life insurance companies, along with specific limits per asset class. These assets, apart from its broad legal definition and restrictions, basically include as follows: government bonds; other type of bonds—corporate, municipal; shares or equities, units of collective schemes, property; cash; deposits; receivables; other assets. For every asset class, there is strictly specified limit.

3 Characteristics of the Investments of Life Insurers from the Accounting Perspective

The economics of insurance transactions is completely different from other enterprises. A major problem in insurance contracts accounting is to appropriately determine a way of reflecting the risk of insurance activities in published financial statements. In this respect, as outlined by Klumpes and Morgan (2008) accounting standard setters should ensure that these treatments are broadly consistent with both their conceptual frameworks and similar non-insurance transactions that are entered into by these same enterprises.

Bulgaria as a European Union (EU) member state applies the International Financial Reporting Standards (IFRS) as the basis for presenting their consolidated financial statements for fiscal years beginning on or after January 1, 2005. In terms of insurance and insurance contracts, the International Accounting Standard Board (IASB) established a two-phase project. In 2004, the IASB issued IFRS 4 Insurance contract as the result of phase I of the project on insurance contracts. For Meyer (2005), the aim of the standard is to achieve high comparability and assist the decision-making process on capital markets. On May 18, 2017, the IASB published IFRS 17 Insurance Contracts. Apart from the predecessor standard—IFRS 4 Insurance Contracts, which set out a limited number of high-level guidelines and disclosure requirements for the accounting of insurance contracts, IFRS 17 introduces a significant change to insurers' and reinsurers' accounting and consequently their financial statements. IFRS 17 is expected to provide greater consistency.

The structure of the insurers' investments includes mainly shares, bonds and to a lesser extent investment property, investments in subsidiaries, associates, and joint ventures and deposits. The issues of insurer investments are not dealt directly in IFRS 4 Insurance Contracts, which automatically defines IAS 40 Investment Property, IAS 28 Investments in Associates and Joint Ventures, IFRS 11 Joint Ventures, IFRS 10 Consolidated Financial Statements (for control), IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement (respectively IFRS 9 Financial Instruments as of 2022, as IFRS 17 Insurance Contracts Allows Its Later Application), IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurements, as determining in respect of accounting of the investments of the insurers. IFRS 17 Insurance Contracts—together with IFRS 9 Financial instruments—are anticipated to bring further consistency and transparency to European insurers (EIOPA 2018).

3.1 Characteristics and Accounting of the Investment Property of Life Insurers

The reporting of investment property by insurers is carried out in accordance with the provisions of IAS 40 Investment Property. By their nature, purpose, and affiliation to the investment policy of the insurers, the investment property is a long-term investment in land and/or building or parts thereof (or both), which are held rather for long-term rental income and/or to increase the equity of the insurer, or both, than to be used in the principal business of the insurer or for administrative purposes. One of the major differences between an investment property and property for own purposes is the ability of the investment property to generate cash flows relatively independently of other assets.

Paragraph 8 of IAS 40 Investment Property lists the following as examples of investment property: Land owned for the purpose of raising capital over the long term, and not for the purpose of short-selling in the ordinary course of business; land held for indefinite future use (if the entity has not determined that it will use the land either as owner-occupied property or for short-term sale in the ordinary course of business, the land is considered to be held for capital appreciation.); a building owned by the entity (or a usable asset related to a building held by the entity) and leased under one or more operating leases; a building that is not used but owned to be leased out under one or more operating leases; property under construction or construction for future use as an investment property.

In order to recognize an investment property in the balance sheet of an insurer as an asset, the following two conditions must be fulfilled cumulatively: it is probable that the reporting entity will receive future economic benefits from the investment property, and the cost of acquiring this investment property can be fairly estimated.

3.2 Characteristics and Accounting of Investments in Subsidiary, Joint, and Associated Undertakings and Other Undertakings in which the Life Insurer has a Stake

Upon initial recognition, an investment by the insurers in shares/units of an entity is classified according to the relevant class—an investment in a subsidiary, associate, joint venture, or financial asset. The requirements of the relevant accounting standard should apply—IFRS 10 Consolidated Financial Statements (for control), IAS 28 Investments in Associates and Joint Ventures (for Significant Impact), IFRS 11 Joint Ventures (for Joint Venture), IFRS 12 Disclosure of Interests in Other Entities. If an investment does not provide control, significant influence, or joint control, it is treated as a financial asset in accordance with IAS 39 Financial Instruments: Recognition and Measurement (IFRS 9 Financial Instruments, respectively).

Depending on the size of the investment, the insurer acquires a holding in which it obtains control, significant influence, or joint control over the entity in which it invests. This is one of the most important characteristics of investments. The influence of which or involvement is also determined by the relationships between the two entities.

Disclosure of information about interests in subsidiaries, associates, and joint ventures is carried out in accordance with the requirements of IFRS 12 Disclosures of Interests in Other Entities. The purpose of the standard is to provide greater transparency, comprehensibility, and the ability to make informed decisions by users of summarized financial information regarding: the interests of insurers in other