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The Role of the "public interest" in shaping corporate reporting: Challenges for accounting research

El papel del "interés público" en la regulación y elaboración de la información corporativa: Retos para la investigación contable

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ABSTRACT

The objective of this study is to present an overview of the theories related to the public interest in the accounting field under an interdisciplinary perspective which might facilitate a better understanding of its relationship with the oversight of the profession and the regulation of corporate reporting in both financial reporting and sustainability reporting. We conclude that the meaning(s) and its evolvement and the role of the notion of "public interest" in the accounting field deserves a proper theoretical framework to analyse intended and unintended consequences of current EU institutional and regulatory developments, which pose new challenges for evidence-based research

RESUMEN

El objetivo de este estudio es presentar una visión general de las teorías relacionadas con el interés público en la disciplina contable bajo una perspectiva interdisciplinar que pueda facilitar una mejor comprensión de su relación con la supervisión de la profesión y con la regulación de la información corporativa, tanto en la información financiera como en la información sobre sostenibilidad. Concluimos que el significado y la evolución de la noción de "interés público" en el ámbito de la contabilidad precisa de un marco teórico adecuado para analizar las consecuencias, intencionadas o no, de la actual evolución institucional y reglamentaria de la UE, lo que plantea nuevos retos para la investigación empírica

1. Introduction

What does "public interest" mean in the accounting field? How has the notion changed or evolved in the last years? What are the intended or unintended consequences of changes in the use and understanding of this term? And more concretely, do these changes pose challenges for accounting research?

Accounting has always been related to the public interest, at least implicitly, but the use of public interest arguments in the development of corporate reporting, at the international level, and more in particular in the European landscape, has increased significantly during the last decade. But the idea that the "public interest" or "public good" can be identified has been always problematic (Box, 2007). This notion has always been open to interpretations, it is contingent on the ideological perspective, differs among stakeholders and jurisdictions, and varies over time depending on the circumstances (Baker, 2005; Abela and Mora, 2012; Hossfeld and Muller-Lagarde, 2018). All these aspects acquire special relevance in an international context.

Traditionally, accounting information has played two main roles in the economy: to provide information for investment decisions (valuation role) and to facilitate a measurement for accountability and governance purposes, including its use in contracts (stewardship role) (Beyer et al., 2010). The "public interest" concept might be implicit in the assumption that the reduction of information asymmetry problems is in the interest of market participants. Accounting information facilitates better and more efficient allocation of resources, which a priori should be considered an economic benefit not just for investors, but for society as a whole.

For accounting information to play its function well, it must be of high quality and reliable, which can be achieved through two main means. On the one hand, it needs the good practice of preparers and gatekeepers (auditors and other enforcement mechanisms). In this context, the accounting profession has always asserted that it serves the "public interest" and the main implication of this has been mostly focused on governance, accountability and ethical aspects of the professionals' behaviour (IFAC, 2012). On the other hand, high quality accounting standards are required. The Constitution of the International Financial Reporting Standards (IFRS) Foundation states that the standards are developed "to help investors, other participants in the world's capital markets and

other users of financial information make economic decisions" (IFRS Foundation 2018, para 2a); so investors are the main target users. Consequently, when these two roles, valuation and stewardship, have been in conflict, the valuation role has had in general a prevalence in the standard-setting process (Gebhardt et al., 2014).

Under the contracting role, the existence of consequences recently called "real effects", was highlighted by Zeff (1978). They have been traditionally considered "unintended consequences" and have been mostly based on economic consequences. Although in academia it has been generally argued that unintended consequences are not a cost of the standards because contracts can be adjusted, its knowledge is relevant to predict how the application of the standards might achieve the intended objective under the valuation role (Abela and Mora, 2012).

Financial scandals and economic crises are drivers for an increased interest of politicians in affecting the standard-setting process and auditing oversight (Young, 1995). The financial scandals that happened at the beginning of the century, and more recently the financial crisis, have been main triggers of the further explicit emphasis on the concept of public interest; at the European Union (EU) this concept has been associated with financial stability, and has been included in the endorsement process of IFRS. Besides, after the issuance of the Non-financial Reporting Directive (NFRD) in 2014, and following the European Green Deal objectives (European Commission, 2019), there have been enormous changes towards mandatory sustainability reporting (SR) with the aim, among others, of encouraging a change in corporate behaviour towards the achievement of sustainable development (Giner and Luque Vílchez, 2022). In December 2022 the Corporate Sustainability Reporting Directive (CSRD) was published emphasizing the social and environmental public interest of corporate reporting.

The inclusion of new goals for corporate reporting and the increasing importance of stakeholders, other than investors, suggests an enlargement of the "public interest" notion, and shows that we are dealing increasingly with what Lambert (2010) calls the use of information to "influence" rather than to "predict"; which in our view might be seen as a new "paradigm" (Giner and Mora, 2019b).". The analysis of intended and unintended effects under this new "paradigm" is a matter of study, in which accounting researchers can play an important role. However, in spite of the aforementioned changes

and the growing importance of considering the public interest in the field of accounting, researchers have not shown much interest on the interaction of the public interest notion with accounting (Bracci et al., 2019a).

The objective of this study is to present an overview of the theories related with public interest which might facilitate a better understanding of its relationship with accounting and its recent evolution. To that end, we extend some previous literature that shows how theoretical frameworks related to the public interest may be used to explain recent development in the corporate reporting mainly in Europe (Di Fabio, 2020; Giner and Mora, 2021). We link those theories to current developments in the oversight of the profession and the regulation of corporate reporting in both financial reporting (FR) and SR. Our main contribution is to put into place the different existing theories that might help to build a theoretical framework adapted to these new developments in corporate reporting in which the public interest notion seems to prevail as a new paradigm and posing new challenges for future research.

The structure of this paper is the following. We show different theories and perspectives on the public interest notion under an interdisciplinary perspective in section 2. Then we discuss the link between the public interest and the accounting profession in section 3. In section 4 we analyse how the two pillars of the current corporate reporting scenario: FR and SR have evolved, in connection with the public interest notion. Finally, in section 5 we provide the discussion and derive some research implications, and in section 6 we conclude.

2. Theoretical background

We start by considering the notion of public interest in the field of public administration, followed by an analysis of the traditional theories on accounting regulation, as well as other theoretical developments.

2.1. Different perspectives of the public interest notion

As pointed out by Box (2007), people in public life, politicians, and even scholars, use the terms public interest and public good despite its lack of identifiable substance, under the assumption that authors and readers share a common understanding of their meaning. However, the idea that a "public interest" or "public good" can be identified has

been problematic. Based on the theories developed by Cochran (1974),[1] Box (2007) considers three perspectives: substantive, aggregative, and process.

From the *substantive perspective*, there is a "common good" that in an "ideal" model might be relatively stable. This is a pure normative perspective which seems to be unsupportable by evidence (Box, 2007).

The *aggregative perspective* would be the opposite of the substantive one, the public interest is the result of aggregated individual preferences. As pointed out by Box (2007) this perspective can be attractive from a democratic point of view because it valorises the majority view. However, the pure aggregative perspective has the classical objection that some criterium should be applied to rank the interests, unless all interests are equivalent (Cochran, 1974); and this perspective fails to explain the perception of collective goals in public affairs (Box, 2007)

Between these two approaches, the *process perspective* contemplates individuals as participants in a dialogue. Individuals (or groups) are perceived as people with interests who can learn from social interactions in which they become aware of others' perceptions. They might even change or be willing to compromise for the good of the larger community and arrive at a "consensus".

This alternative has its own weaknesses in practice. The "common good" is still a vague and debatable concept. Some theorists have tried to avoid the difficulties involved in identifying the public interest with the outcome of the political process by declaring that the process itself is the public interest, provided that certain standards of "due process" are followed (Cochran, 1974). However, this is not generally accepted since following due process does not necessarily guarantee that public interest is achieved. Besides, in most cases a relatively small percentage of the affected individuals (groups) participate in the policy dialogue, and the power attributed to those who participate might be unbalanced. The "principle of consequences" exhorts the decision maker to examine the consequences of alternative courses (Cochran, 1974). This is where academic research has a significant role to play.

2.2.Market-driven theories of regulation

[1] Cochran (1974) considers a wider range of theories and sub theories, but for the aim of this paper we consider Box (2007)'s simplification is essentially valid.

The literature has produced three major theories of regulation (Peltzman, 1976; Kalt and Mark, 1984) specifically linked to the public interest notion: the so-called "public interest", the "capture" and the "ideology".[2] Some authors have applied these theories to the behaviour of capital market regulators (Kothari et al. 2011, Abela and Mora, 2012).

The pure form of the *public interest theory* describes regulation as a ¨benevolent and socially efficient" response to market failures. It shows the regulator as an infallible entity that is not susceptible to political influence and draws its judgements on purely technical grounds. This theory relies heavily on the belief that lobbying has a negligible impact on regulatory outcomes. According to Kothari et al. (2011), this assumption could be interpreted as consistent with how some standard setters view their own work, although it does not fit with what is observable in practice.

On the opposite side of the purest form of the public interest theory is the *capture theory*, which considers regulators as economic agents seeking to maximize their own utility. These regulators are usually politicians, whose interest lies in retaining their power. Consequently, they will supply regulation in accordance with those constituents that they believe will be most effective in helping to maintain their power. The implication of this theory to the accounting domain would be that accounting regulators, who are assimilated to the self-interested politicians, are captured by specific and powerful lobbyists; besides as a result of these political pressures, the market would no longer trust the output that results from the standards (Abela and Mora, 2012). The empirical evidence does not appear to support the arguments put forward under this theory either (Dal Bo, 2006), and it is also difficult to reconcile with what is observed in practice.

Lastly, the *ideology theory* is premised on a behavioural model of regulators that assumes neither the naïve view under public interest theory nor the prominence of self-interest under capture theory. It argues that the regulatory outcomes result from the combination of the political ideologies of regulators and the effect of interest groups lobbying regulators. Lobbying activities might be self-interested, but they could also be seen as a mechanism through which regulators become aware of policy issues that they need to respond to, and this is precisely the reason why consultation periods are key in the due process of accounting standard-setting (Esty, 2006). The ideology theory does not

[2] The public interest and the capture theory were seen as alternative theories of regulation in the late 1970s (see Pelzman, 1976). The ideology theory arose later as a consequence of the observed behaviour (see for example Kalt and Mark, 1984).

attempt to assess the "optimality" of the regulatory outcome. This is the theory that seems to better explain the behaviour of standard setters observed in practice (Abela and Mora, 2012).

These theories of regulation can be linked with the aforementioned perspectives of the notion of public interest. The *ideology theory* of regulation is associated with a notion of public interest based on the *process perspective*, which could be a priori the theoretical framework that better fits with the accounting regulation process. However, as mentioned these theoretical assumptions have weaknesses in practice. Focusing on a scenario in which different stakeholder are involved in the regulation process, and there are interests in conflict, the problem of making decisions emerges. Indeed, there will likely be an unbalance of power between groups of stakeholders, and how to weight the different interests? As discussed below, the "balancing approach" provides an answer, although it is not free from criticisms.

2.3. *Other theories based on public interest: the balancing approach*

Politicians are normally in a privileged position to influence regulation in general, and accounting or auditing regulation in particular. There are several channels through which political forces can affect different stages of the standard-setting process, including the governance structure of institutions, lobbying and direct political. It has been argued and empirically tested that politicians have a strong interest in accounting information, and its use as a tool to achieve concrete ends, this is their own objectives, is not free from self-interested motivations (García Osma et al., 2019; Bischof et al, 2020; Giner and Mora, 2021). Based on the traditional agency framework some studies provide empirical evidence that politicians might use accounting to gain political goals as well as for their own benefit, which confirms the view that politicians often value short run economic effects while discounting longer run consequences (Walsh, 2005). But this framework has limitations to explain how they behave in particular circumstances, as for example a severe financial crisis (Giner and Mora, 2021)

Giner and Mora (2021) adopt a broader and more interdisciplinary view that helps to understand how and why, in extreme circumstances, particularly in a financial crisis emergency, politicians might use accounting to obtain desirable short-term outcomes with the consent of institutions and the inaction of gatekeepers on behalf of the "public interest". In the fields of law and politics, the "balancing approach" helps to explain the use of the "public interest" as an argument to "overrule" standards (Aleinikoff, 1987)

However, this apparently "correct" decision requires giving weights to the variables in conflict to balance the competing interests, and then, self interest and ideology might influence the weights given to the alternatives. Furthermore, when determining which of them has more weight, it is (wrongly) assumed that there is a homogenous measurement criterion to consider the consequences, which makes alternative courses of action comparable. Giner and Mora (2021) argue that when there is a conflict between accounting rules and governmental goals, , the benefits of breaking those rules could be seen by politicians greater than the possible costs. Although these authors are adapting this framework to the case of overruling accounting rules, so to accounting practice and its oversight, it could be also adapted to the decision to change or adopt an accounting rule, consequently to the standard-setting process.

3. **The institutional context of the accounting profession**

For decades it has been considered that the public interest is inherent to the accounting profession, since its mission is to serve and protect the public interest (Huber, 2015). Accountants and accounting play a significant role in the creation and maintenance of the public interest, most obviously through the fundamental obligation for professional accountants to serve the public interest (IFAC, 2012). To achieve good audit quality, high quality standards on auditing are needed, which at the international level have been issued by the International Accounting and Assurance Standards Board (IAASB), otherwise the public will not trust in the auditor's opinion. A logical complement of having quality standards is having a trustable profession that behave ethically, and this is precisely what the standards issued by the International Ethics Standards Board for Accountants (IESBA) aim at to.

Hope and Langli (2010) define "acting in the public interest" as compliance with the code of ethics of the profession, and consider that the purpose of the code is to enhance the reliability and credibility of audited financial statements. Similarly, McGuire et al. (2012) and Schmidt (2012) define the public interest from the auditing perspective as the validation of the accuracy, reliability, and credibility of the financial statements in order to help investors' decision making. There is the belief that the provision of accounting information aims to help the efficient functioning of the capital market, and that itself might be seen as contributing to the public interest. But for this to work, the auditor's

independent judgment is an essential component in reducing agency problems as companies produce the information.

After several major corporate collapses that took place at the beginning of this century, which not only affected the economy as a whole but impacted the credibility of the profession s, regulatory arrangements were put in place by certain institutions creating what was known as the Monitoring Group (MG)[3] . These arrangements affected the oversight of the process of developing standards on auditing and assurance as well as on ethics. They were based on the premise that unless appropriate structure and process for governance and oversight of the accounting profession, the public interest would not be protected.[4] Central to these arrangements is the Public Interest Oversight Board (PIOB).

The PIOB was established in 2005, and is the intermediate level in the three tier structure formed by the Monitoring Group (MG), which exercises an overall monitoring role as guarantor of the public interest in the financial institution domain, the PIOB a multistakeholder body representing the interests of investors, markets and users of the corporate information, and the standard setters: the IAASB and the IESBA. The main goal of the new structure is to establish some control over the accounting and auditing profession, by means of a strong supervision of their standards and the composition of the standard setting bodies.[5] As explained by Wymeersch (2015, p.1), a former PIOB Chair, "the need was felt to upgrade the status of the previously existing professional standards from purely self regulatory instruments implemented by the IFAC member bodies, to widely recognized and used professional standards with a higher public interest status due to external public oversight".

[3] The Monitoring Group is a group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit standard setting and audit quality. The members of the Monitoring Group are the Basel Committee on Banking Supervision, European Commission, Financial Stability Board, International Association of Insurance Supervisors, International Forum of Independent Audit Regulators, International Organization of Securities Commissions, and the World Bank.

[4] It results relevant to mention Directive 2014/56/EU that in the revised article 26 of Directive 2006/43/EC allows the Commission to adopt of the international auditing standards (ISAs) issued by the IAASB, only if they "have been adopted with proper due process, public oversight and transparency, and are generally accepted internationally", and "are conducive to the Union public good".

[5] See the report "Standard setting in the public interest: A description of the model", PIOB, September, 15, 2015. Available at: https://ipiob.org/how/

~~Since its establishment the PIOB has been oversighting the due process leading to the establishment of auditing and ethics standards (understood in a broad way, since the boards establish their agendas till the standards are approved). In order to guarantee that the standards are designed having the users' interests in mind, the process has to be independent, and free of undue pressures that might go against the users. It is important to remark some characteristics of the oversight procedure followed by the PIOB that are relevant for the further analysis (Wymeersch, 2015). When the PIOB refers to the protection of the public interest, it does not assume that it depends on the remarks made during the consultation process, on the contrary PIOB has the duty to pursue the interest of the public, the users, regardless of whether they actively participate in due process or not.~~

~~The financial crisis was a trigger for further interest and changes in the oversight of the profession landscape in the EU as well. Thus, in 2011 the European Parliament (EP) stated: "The public interest function of statutory audit means that a broad community of people and institutions rely on the quality of a statutory auditor's or an audit firm' s work. Good audit quality contributes to the orderly functioning of markets by enhancing the integrity and efficiency of financial statements. Thus, statutory auditors fulfil a particularly important societal role." That said, it results relevant for the further discussion to consider the 2020 Recommendations issued by the MG regarding how the different actors should perform in pursuing the public interest. The MG emphasizes that the standards should consider the different stakeholders, balancing and weighting of evidence and diverse stakeholder's viewpoints. However, since their needs might differ, it is important to highlight that the MG points out that they should be focused "primarily on the interests of users, and more specifically the longer-term interests of creditors and investors and the protection of those interests" (MG, 2020, p.20).~~

~~As a consequence of the 2020 Recommendations, some changes have been recently implemented. In 2021 a PIOB Nominating Committee was established to replace the IFAC in the selection and nominating process of the members of both the IAASB and the IESBA. The objective is not only separate the boards from IFAC's sphere of influence, but to have multi stakeholder boards in which accountants do not dominate. And, in November 2022 a new International Foundation of Ethics and Audit (IFEA) has been established to house the two boards, thus they are not IFAC committees anymore~~

4. The corporate reporting standard-setting process: the EU institutional context

4.1 Financial reporting standards

As already mentioned, FR of companies (more concretely listed entities) has been considered under the financial market perspective. Consequently the "common good" notion has been linked to efficiency and better allocation of resources.

IFRS are designed with a specific interpretation of the economic public interest in mind, based on the belief that the International Accounting Standards Board (IASB) should act to respond to capital market failures. This approach to the public interest underlies also the interpretation of the European Commission (EC) as stated in Regulation 1606/2002 on the adoption of IFRS, which aims "to contribute to a better functioning of the internal market", and "the efficient and cost-effective functioning of the capital market" (European Parliament and Council of the EU, 2002, p.1).

A few years after IFRS were implemented in the EU in 2005, the global financial crisis served as an important catalyst and power struggles between the EU and the IFRS Foundation emerged (Bengtsson, 2011; Burlaud and Colasse, 2011; Botzem, 2014; Palea, 2015), which affected the initial common view of the public interest notion. Therefore, at the EU, the so-called "European public good or public interest" has been adapting to changing economic and political concerns that could conflict with the initial notion (Warren et al., 2020). Referring to the EP's attitude towards endorsement, some argued that IFRS should not be simply endorsed by the EC, but "had to be justified not just economically, but also politically and socially" (Crawford et al., 2014).

Some voices have been arguing that their interests were not adequately considered by the IASB; the issuance of the Maystadt Report can be seen as a turning point in the attitude of the EC towards IFRS (Maystadt, 2013). The 2013 Maystadt Report stresses the need to enhance the criteria of the "European public good" in the endorsement process (Alexander and Fasiello, 2021). Along those lines, ten years after the introduction of IFRS, the EC concluded that the term public good "may be understood to encompass broad financial stability and economic considerations" (EC, 2015, p.7), which is a major change compared to the prior economic interpretation in the Regulation. As a consequence, nowadays, the criterion to endorse IFRS encompasses the financial stability goal and, more generally, the protection of the European economy which is the implied interpretation of the "public interest". The increase of political influence in the process of

adopting IFRS has to be considered when analysing the relationship between the public interest and the accounting standard-setting process (Alexander and Eberhartinger, 2010; Burlaud and Colasse, 2011; Camfferman and Zeff, 2018).

The IFRS Foundation reacted in 2015 by publishing a mission statement stating that they were contributing to the public interest by fostering trust and growth and introducing a reference to "long term financial stability in the global economy" (Hoogervorst and Prada, 2015, p.3). This statement is still aligned with the initial economic notion of public interest. But the European changes have involved a broadening of the "public" toward other stakeholders beyond investors, resulting in a greater prevalence of the financial stability objective that continues to gain some importance over utility (Pelger, 2016; Mora, 2022), and has led to greater political influence in the regulatory process.

The financial crisis also affected the final output of the standard-setting process, as it happened with financial instruments, driving to IAS 39 being replaced by IFRS 9. In particular the change in the impairment loss model was due to the pressure from banking regulators, supervisors and politicians, who considered the IFRS 9 model to be more in line with financial stability objectives. Paradoxically, these same banking regulators called in 2020 for more flexibility in the application of the IFRS 9 model, arguing that, due to the COVID-19 pandemic crisis, the model had a negative effect on financial stability. Although the IASB was rather reluctant to follow the demands of financial supervisors when it issued IFRS 9, it now seems much more willing to accept their demands by allowing the prudential supervisor to issue guidance for interpreting the IFRS 9 model. (Mora, 2022).

4.2. *Sustainability reporting standards*

Since the 80s several institutions have been strongly working toward the establishment of guidelines to help entities to produce NFR, also known as environmental, social and governance (ESG) information, and more recently SR. We refer to the Global Reporting Initiative (GRI), as well as the International Integrated Reporting Committee (IIRC) and the Sustainability Accounting Standards Board (SASB), these last two institutions focus on investors and merged in 2021 to create the Value Reporting Foundation (VRF), which in August 2022 completed the consolidation with the IFRS Foundation.

As mentioned above, after the adaptation of national laws to Directive 2014/95/EU on NFR, the CSRD proposal represents a huge change in the field of SR, and there are some aspects that deserve attention in this study. The first is that, contrary to what happened with FR, the EU has opted for a European standard setter: EFRAG, and this is being materialized in the draft European sustainability reporting standards (ESRS) sent to the EC at the end of November 2022; although the authority to issue the final standards by means of delegated acts is the EC. To accommodate this new task, and following a consultation that took place in 2021, EFRAG has substantially modified its structure, and since the beginning of 2022, a new SR pillar, in parallel to the FR one, has been established. The new board in that pillar also includes the civil society.

Additionally, the CSRD has introduced some aspects that will characterize the future ESRS, we refer to double materiality, target audience and scope. The concept of "double materiality", which was implicit in previous position papers issued by the EC but not in the NFRD (Baümuller and Sopp, 2022), has been clearly stated. This means that in addition to considering how sustainability topics are sources of risk and opportunities on entities, the so-called "financial materiality", it should be considered how entities affect or impact the environment and society, referred as "impact materiality".

Regarding target audience, investors and non governmental associations, social partners, and other stakeholders are primary users. Regarding the scope draft ESRS cover environmental (climate, pollution, biodiversity, water, and circular economy), social (own workforce, other workers, affected communities, consumers and users), and governance.

Simultaneously, at the international level, the IFRS Foundation created a new board in parallel to the IASB, the International Standard Sustainability Board (ISSB) to develop IFRS sustainability standards However, the ISSB only considers "financial materiality" since is oriented to investors, and at the moment is focused on climate, although has already indicated that other topics will come later (IFRS Foundation, 2020).

Regarding how the two institutions have adapted their previous concepts of "public interest" to the new SR domain, the fact that the ISSB maintains investors as the main users and narrows the provision of information to that related to the financial position of the entity does not suggest a change compared with the IASB. However, the introduction of the "impact materiality" and the consideration of all stakeholders suggest a significant

change in the definition of public interest compared to the focus on investors and financial stability in the field of FR.

5. Discussion and research implications

In this section we link the theoretical frameworks shown in section 2 with the institutional context and infer research implications in the accounting field.

5.1. The role of the accountants and their incentives

The incentives of the profession to act or not in the public interest have been, at least indirectly, a matter of research for years. Regarding independence and audit quality, Tepalagul and Lin (2014) provide a comprehensive summary of the literature on the relationship between both aspects. Also, recent literature reviews highlight the link between whistleblowing and accounting related misconduct (Gao and Brink, 2017). However, little attention has been paid to the theoretical assumptions connecting professionals' behaviour to the public interest (Dellaportas and Davenport, 2008; Neu and Graham, 2005).

Economic theories of the audit market, or grounded on agency theory have been traditionally considered in the development of hypotheses on professionals' actions (Parker, 1987). However, traditional agency theory might not fully explain professionals' behaviour. To solve the insufficiency, other approaches have been considered, of which some have a psychological and sociological background (Baker, 2014), others are based on the theory of moral action (Lokanan, 2018), and on other non-conventional approaches and critical perspectives (Baker, 2014). Research that establishes the link of public interest theories with professionals' behaviour is scarce. An exception is Giner and Mora (2021), who extend the implications of the balancing approach to explain why, auditors and enforcers instead of following their professional rules, might act in the interest of politicians.

The previous analysis of the last developments in the oversight of the accounting profession shows some similarities with the evolvement of the public interest notion in the standard setting process of corporate reporting. Will the increasing independence of the boards from the profession and the multi stakeholder approach pursued by the oversight institutions affect the behaviour of auditors?

5.2. *The standard setting process: further effects analysis*

According to a large body of accounting researchers, the main problem with the growing importance of considering financial stability a goal of FR is that the two different objectives, usefulness for investors and financial stability, are usually in conflict (Zeff, 2012; Giner and Mora, 2019a). And the prevalence of the second might have negative consequences in transparency and credibility for FR as a whole (Barth and Landsman, 2010; Acharya and Ryan, 2016; Novotny-Farkas, 2016; Giner and Mora, 2019; Mora, 2022).

There are some key questions for debate related with the goal of financial stability on behalf of the public interest which will require further theoretical and empirical research. Is there a unique view of financial stability? Should accounting standard setters meet the need of one set of users at the expense of others? Could the IASB be captured by the self-interest view of dominant or powerful stakeholders (as politicians or prudential regulators)? Will recent developments in the standard-setting process have unintended consequences on transparency and market allocation of resources?

The EU process can be explained through the *ideology theory* of regulation with a public interest notion based on the *process perspective*, although inevitably the weaknesses of those perspectives emerge. The IASB legitimacy derives from the ability to develop rules acceptable to the different stakeholders, rather than to obtain "optimal" rules (De Luca and Prather-Kinsey, 2018), which is consistent with the *ideology theory*. It can be argued that the public interest notion in this context is mostly focused in the *process perspective* because of the existence of a due process in which stakeholders can participate and provide their own views. However, it can also be argued when there is a conflict of interests the final output might be driven by unbalanced power of stakeholders, and the *capture theory* of regulation might have a role.

Di Fabio (2020) does an interesting analysis trying to link public interest theories with the IASB standard-setting process. Aligned with this view she highlights that the IASB has the risk of being captured by the most powerful stakeholders, pointing out to its major constituency: the EU (which might be viewed as a "political" constituent) and the financial industry, and argues that financial stability might be interpreted as a tool to favour the financial industry's interests rather than as a means to safeguard the real

economy's health. Some complexity can be added to the European scenario when considering that the EU is a political constituent whose view is an *aggregation of interests*, since all jurisdictions have a vote and different self-interests (Di Fabio, 2020). From a related but different angle, Giner and Mora (2021) use the balancing approach to highlight the potential dangerous consequences of politicians using accounting as a tool, on behalf of the public interest.

When dealing with SR, the scenario becomes even more complex, and poses even more challenges for researchers This field of corporate reporting which started as a critical approach in the 90's has recently become mainstream, and a line of research similar to the traditional marked-based that considers economic consequences is needed. The multi-stakeholder perspective increases the likelihood of conflicts of interests, not just the economic interests of the different stakeholders but the economic versus the societal interests, which open a potential interesting area of research.

It should be noted that despite ESRS will be mandatory, they will not oblige companies to behave in one way or another, although they might change their behaviour, and this is an interesting matter of research (García and Mora, 2021). It has been argued that the EU requirements might create a competitive disadvantage, or even advantage, for EU companies; in fact, there might be a conflict between maximizing corporate economic value and some socially responsible behaviour, but also some beneficial aspects in terms of improved reputation. These assertions are not obvious and also need empirical testing.

6. Conclusions and final reflections

The concept of public interest in the accounting field is not unique, and seems to have changed significantly in the last decade; from having an economic angle linked with efficiency in capital market, to promoting financial stability, to achieving a more sustainable world. Besides the contracting role of information and the real effects, either intended or unintended, are becoming more prevalent in policy-making decisions related to corporate reporting.

The growing importance of considering the public interest in the field of accounting requires empirical studies that provide evidence about whether this is really considered and how. The current IFRS context and the circumstances surrounding their implementation in different jurisdictions offer an interesting field of research. The

interaction between achieving the public interest, with its various interpretations for the different stakeholders with different interests, together with the use of accounting to get political goals, result in a complex scenario in which the potential number and typology of unintended effects is difficult to predict. But it does provide material for empirical evidence that should be based on a theoretical framework, in which theories and arguments related to the public interest are contemplated. These theories exist in other fields, mostly in the political and legal science, but their use in the accounting research is scarce.

The recent developments in corporate reporting, in particular the emergence of SR, suggests a change in paradigm from the one referred to the usefulness to the one associated with behavioural changes, which drives new challenges for researchers. Future research will allow to see the consequences of the introduction of the new sustainability standards, and confirm if they have achieved the objective, which is a more sustainable behaviour of entities. Besides this new form of reporting has considerably enlarged the number and typology of stakeholders, which might have different views, and researching how they are balanced by the standard setter when acting in the public interest, is quite a challenge.

This new scenario puts added pressure on accountants and other preparers of the information, as well as on auditors and assurers. The development of high quality standards, both on audit and ethics, is on the agenda of the relevant standard setting bodies. This opens up a new avenue of research that delves deeper into the behaviour of those actors and how they act in the public interest.

In our view the main contribution of the study is to show different theories and perspectives to be used in future accounting research, which will provide a more interdisciplinary foundation to the development of hypotheses, related with standard setting, as well as corporate reporting practices and their consequences. We also argue that more critical thinking on the role(s) of corporate reporting, and the potential conflict of interests among stakeholders (including politicians) is required when making hypotheses.

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