Global Exits from the EU's Joint Decision Trap

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INTRODUCTION

Studies of policymaking in the European Union (EU) tend to view the multi-level EU polity largely in insulation from its international environment (Pagoulatos and Tsoukalis 2012). Given the ongoing globalization of formerly domestic issues and complex international interdependence, the lack of attention paid the global level in the analysis of EU policymaking becomes increasingly problematic (Jordan 2001; Knodt 2004). Processes of globalization and European integration have led to a steady increase in the importance of interactions between international and EU politics, with international regimes impacting on policy evolution in the EU (Falkner and Müller 2014). As we argue in this paper, the strategic use of global level opportunities provides EU actors potent tools to influence internal EU policymaking. Specifically, our analysis focuses on “global exits” from “joint decision
traps (JDT)” (Scharpf 1988), which represent a key challenge for policymaking in the multi-level federal systems and the EU.

We demonstrate the importance of “global exits” from JDT situations for the case of accounting standards. Harmonization of accounting standards in the EU faces important challenges that apply to the broader domain of financial market regulation. Financial market regulation falls under the Community method; it has to be constructed under conditions of divergent policy preferences among EU governments, and negotiators need to find solutions that not only tackle the policy problem but that are also acceptable for the main actors involved. Given its contested nature, there has been little progress on the harmonization of accounting standards within the EU for more than three decades. We argue that it was only possible to achieve significant progress at the policy level when the European Commission switched to a strategy of “harmonizing globally to harmonize internally”, leading to the adoption of EU regulation 1606/2002. Through regulation 1606/2002 the EU not only opted for far-reaching harmonization steps on the basis of international accounting standards developed by the International Accounting Standard Board (IASB). It also delegated the elaboration of future standards to the IASB, removing it from the contested EU setting.

Our paper proceeds as follows. We first develop our conceptual argument and distinguish it from established works on the JDT. Second, we describe empirically the EU’s JDT-situation that led to stalemate on accounting standards and the inability of internal exit mechanism to facilitate escape from the JDT. Forth, we show how ‘global exit’ facilitated agreement on harmonization of accounting standards (regulation 1606/2002); (4) We describe evolution of EU policy on accounting standards from 2002 onwards, highlighting the continued relevance of EU-global nexus for its development. The conclusions summarizes our main findings.
THE JDT-MODEL: INTERNAL EXITS vs GLOBAL EXITS

A key contribution of the joint decision trap concept lies in the fact that it offers a theoretical explanation of policy-making cutting across different levels, providing valuable insights into how multi-level governance in the EU works (see also Benz and Zimmer 2012: 19). In view of the JDT concept, European integration will systematically generate suboptimal policy outcomes as member governments directly participate in EU decisions, without a representation principle in place to filter out their immediate self-interests (Scharpf 1988: 255). Specifically, the joint decision trap is understood to arise in the multi-level EU governance system when central decision-making depends on the (nearly) unanimous agreement of member states (e.g. Community method) and where their policy preferences diverge significantly.

Yet, Scharpf never regarded blockade and policy failure as inevitable consequences of joint-decision making. Rather, he “analysed different modes of decision-making allowing at least incremental changes and considered different conditions which make deadlock likely or not” (see Benz 2011: 200). In this respect Scharpf’s original model identified a number of exits from joint decision trap situations that were further elaborated by subsequent research (Peters 1997; Scharpf 2006; Falkner 2011; Schmidt 2000; Blauberger and Weiss 2013; Müller and Slominski 2013). Potential exit options include, among other things, bargaining tactics like side-payments, package deals or the switch from a bargaining to a problem solving logic; a change in decision rules (e.g. a switch from unanimity to qualified majority voting); changes in representation modes (e.g. the through delegation to experts); or the activism of intervening actors like the European Commission, the European Parliament and the European Court of Justice (ECJ).

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1 This joint decision trap problematique is understood to be particularly grave in situations where effective problem solving is no longer possible at the national level.
What these established exit mechanisms have in common is that they are all relating to strategies and dynamics located within the EU policy-making system. Indeed, EU actors have displayed a great resourcefulness in employing internal exit-mechanism to escape some of the problematic consequences associated with the JDT. This is also true for the field of financial market regulation, where the delegation of some decision making powers to technocratic committees as part of the “Lamfalussy” procedure allowed progress at the policy level (see Kudrna 2011).² Though we agree with the main premises of the JDT-model and established exit-strategies, we argue that it pays insufficient attention to EU-global interactions. Thus far, the JDT-concept largely treated factors pertaining to the international environment as exogenous, i.e. as lying outside the realm of the JDT-model (see Falkner 2011: 8). As Scharpf has noted:

“(...) the EU is also prone to varying external circumstances which may, at times, bring about changes in actor preferences and hence may allow adoption of the policy that was formally blocked (Scharpf 2011: 238)”.

Considering the EU as a self-contained entity that is largely insulated from globalization might have been less problematic at the time when the JDT-concept was first applied to the EU-setting in the late 1980s. Yet, over time intra-EU and EU global policy making dynamics have become increasingly intertwined, with actors pursuing strategies and forming coalitions over multiple levels, including the global sphere. As a decentralized and fragmented political system, several EU actors might use international institutions to influence intra EU politics and to overcome domestic veto points.³ This may involve official state and EU representatives, national or European technocrats liaising in trans-governmental networks, as well as private transnational actors lobbying for certain standards and

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² with respect to the EU’s investment services directive and the market in financial instruments directive
³ As Drezner (2003) has argued a decentralized state structure has multiple independent decision points and lacks a central actor that can act on its own.
regulations (see also Lavenex 2014: 888). The ability of EU actors to strategically employ global settings for domestic purposes is limited by specific circumstances pertaining to the global setting as well as to internal characteristics of the EU (Müller, Kudrna, and Falkner 2014).

To gain a better understanding of the Union’s full potential of escaping policy deadlock, we can draw on works on the EU’s external relations and the broader International Relations literature. Having traditionally been concerned with the EU’s bottom-up influence on international institutions, recent scholarship on the EU’s external relations has begun to pay greater attention to the flipside of EU-global interactions, looking also into various aspects of the top-down influence of international institutions on the EU (Costa and Jorgenson 2012). The few existing studies dealing with policy-specific consequences of EU-global interactions have dealt with reforms of EU agricultural policy in the context of the WTO-setting (Patterson 1997; Paarlberg 1997) as well as with EU environmental policy (Costa and Jorgenson 2012; Oberthür and Gehring 2006; Holzinger and Sommerer 2014).

This line of research is related to a broader trend in International Relations (IR) scholarship that has developed as part of the “second image reverse” research agenda (Gourevitch 1978; Putnam 1988; Cortell and Davis 1996; Drezner 2003).

[The following list of mechanisms is yet to be fully elaborated; see summary Table 1 for overview based on Falkner 2011]

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4 International negotiations follow their own rhythm and have their own procedures for agenda-setting, decision-making and membership – with traditional IOs often limiting membership to states while policy networks often involve policy experts. At the same time, the internal distribution of EU competences may limit the access of specific EU-actors to global settings. What is more, unlike policymaking in the EU-setting – a compulsory negotiations system where sovereignty has been transferred to supranational bodies – the participants in global negotiations enjoy considerable leeway when accepting global commitments.

5 Other works have studied the international sources of intra EU politics from a broader perspective looking at impact in terms of polity, politics, and policy (Costa and Jorgenson 2012) or with a specific focus on institutions (Knodt 2004).
Table 1: The summary of exit mechanisms within the EU

<table>
<thead>
<tr>
<th>Factor</th>
<th>Factors</th>
<th>JDT exit mechanisms</th>
<th>Global dimension of JDT exit mechanisms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decision rule</strong></td>
<td>Unanimous or nearly unanimous decision-taking</td>
<td>(qualified) majority voting, Treaty-based game, venue shopping for less demanding rules</td>
<td>Additional venues, inclusion of new actors, exclusion of some EU actors</td>
</tr>
<tr>
<td><strong>Decision style</strong></td>
<td>Bargaining</td>
<td>Problem-solving orientation or possibility of package deals/issue-linkages, side payments and log-rolling</td>
<td>New issue linkage opportunities for package deals; lure of global rules</td>
</tr>
<tr>
<td><strong>Representation</strong></td>
<td>Central authority is directly dependent upon agreement of constituent authorities</td>
<td>Constituent authorities are not (or only formally) decisive; de facto decision-making delegated to bureaucrats or experts</td>
<td>Non-EU, global expert bodies available, expertise and resources</td>
</tr>
<tr>
<td><strong>Intervening actors</strong></td>
<td>Absence of mediators respected by the Council</td>
<td>Any EU body (Commission, EP, ECJ, ECB) or specialized agency may act as a process manager searching for solutions (reduce transaction costs of identifying win-win solution)</td>
<td>Additional intervening actors from within advanced global policy regimes</td>
</tr>
<tr>
<td><strong>Political preferences</strong></td>
<td>Fixed and divergent preferences imported from constituent authorities</td>
<td>Learning and socialization; external changes and crises may change preferences</td>
<td>Global learning and socialization (G7, G20, FSB, IMF etc.) and global influences on preferences Appeal to international norms as a way to strengthen their domestic agenda</td>
</tr>
</tbody>
</table>

Source: Columns 1 to 3 based on Falkner 2011.

Scholars have pointed to potential payoffs from the internationalization of domestic issues, as international agreements may create more space for political action at home (Putnam 1988; Davis 2004). If the institutional context allows, international negotiations can counteract domestic obstacles to policy reforms by broadening the negotiation stakes, e.g. by creating credible issue-linkages for global package deals that ensure that there are prizes for everybody, allowing for side-payments and
logrolling (Drezner 2003). International institutions can change the incentives of domestic veto players for accepting proposed policies, perhaps by providing outside resources to offset any losses caused by the policy. They can also impose costs on the exercise of domestic vetoes (e.g. because states that do not fulfill commitments made through international institutions will be ineligible for subsequent programs and benefits (see cost of no agreement below).

Moreover, EU related actors need to consider the cost of no, or an unfavorable (global) agreement when developing their negotiations strategies (argument about win-sets etc.). International institutions can create additional pressure/incentive for domestic harmonization because divisions, blockade, and policy divergence at the EU level hampers the EU’s external potential (weakens its bargaining power in global negotiations, no strong unified position); ambitions of EU to become international player ascertain its interests in global politics.

Drezner (2003: 5): International organizations/institutions gain legitimacy through a reputation for expertise (such as IMF) or through recognition of its ability to set global standards (Basle Committee on Banking Supervision), providing resources on which EU actors can draw. In granting IOs concessions domestic institutions also relinquish/delegate authority. This might by intentional to circumvent internal EU obstacles (shopping for effective governance mechanism), e.g. if EU policymaking process is too slow and politically contested.

Moreover, Cortell and Davis (1996) argue that domestic actors can appeal to international norms as a way to strengthen their domestic agenda (enhance capacity for persuasion and moral suasion).

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6 Germany in 1990s/2000s was more divided in its preferences (big companies wanted access to US market etc.) → Putnam argument about government more divided = more likely to strike a deal internationally (see Patterson 143).

7 Scholars have noted that a strong internal regulatory capacity can strengthen the EU’s influence over international public policy (see esp. Bach and Newman 2007). Yet, while regulatory capacity is mainly concerned with issues like institutional capacity and technical expertise, key hurdles for EU harmonization/regulation are political, not technical in nature. In that way, the JDT not only represents a major hurdle for achieving policy progress at the EU level, it also undermines the EU’s potential to shape global public policy.
COMMON ACCOUNTING IN THE EU: HARMONIZING GLOBALLY TO HARMONIZE INTERNALLY

Accounting standards are central to capital market operation. They transform the material reality of production into numbers that can be used to determine and compare value, which is necessary for decision on effective allocation of scarce capital. Accounting standards determine information that companies must communicate to investors, creditors, tax authorities and other stakeholders about their internal finances. They constitute the 'operating system' of capitalist economy (Vernon 2007). The differences among accounting rules can fragment markets into mutually incompatible parts and thus undermine cross-border economic integration (Posner 2010). Hence, the harmonization of accounting standards is one of the prerequisites for a single capital market within the European Union. The EU has strove for convergence of national standards ever since late 1960s, when the customs union gave way to emerging single market.

Joint-decision trap in accounting

The first attempt at harmonization came with the fourth Company Law directive of 1978, which imposed the obligation on companies to prepare annual accounts so that they would achieve some degree of comparability across member countries. Subsequently, the seventh directive of 1983 introduced the requirement for consolidated accounts for groups of companies. However, progress of harmonization was limited as each of these directives accommodated various national specifics through extensive use of plentiful optional provisions. This flexibility was necessary to foster agreement of member governments that jealously protected national accounting standards.
The 1980s stalemate on accounting harmonization represented a joint-decision trap (Scharpf 1988, 2006, 2011, Falkner 2011). Accounting directives require unanimous agreement of member states, which was prevented by conflicting policy preferences derived from deep-rooted institutional heterogeneities. The resulting policy was clearly sub-optimal, as it kept single market fragmented by mutually incompatible financial statements.

The traditional cleavage between the Anglo-Saxon and continental approaches to financial market regulation made unanimous agreement on common rules extremely difficult (see Quaglia 2014, 2010, Kudrna 2011, Posner and Leblond 2010, Story and Walter 1997). The latter approach, championed by the UK, emphasized the fair value accounting, protection of investors and separation of financial and tax or regulatory accounting, whereas the latter systems, including that of Germany, in contrast, promoted more eclectic accounting principles based also on historical or replacement value approaches, prioritized protection to creditors and used the accounting procedures for tax and regulatory purposes (Quaglia 2014, Nolke and Perry 2007, Vernon 2007, Heidhues and Patel 2007, van Hulle 2004). Further divisions stem from different legal traditions. The Anglo-Saxon approach to accounting rests on general principles that leave the professional accountant considerable discretion, whereas the continental positive law traditions relies on detailed prescriptive rules (Vernon 2007, Commission 1995).

The introduction of qualified majority voting after 1986 did not affect the stalemate. Even if the Council tried to abandon consensual approach to harmonization, member states on both sides could form a blocking majority as was typical in other contested fields of financial market regulation (Kudrna 2011). Consequently, the harmonization drive during the run up to the 1992 single market deadline, did not advance accounting harmonization. The EU was able to adopt only two sectoral
directives on financial information to be disclosed by banks and by insurance companies in 1986 and 1991 respectively. The joint-decision trap prevailed into the single market era.

**Global exit from the joint-decision trap**

The Anglo-Saxon approach to accounting was maintained and developed on transnational level by the International Accounting Standard Board (IASB).\(^8\) It is a private professional society based in London, which formulates International Financial Reporting Standards (IFRS).\(^9\) The IASB was established by a prominent British accountant in 1967 and sought to formulate foundational principles of accounting and best practices (Veron 2007). The British professionals viewed IASB as explicit counterweight to the continental approach to accounting, especially after the UK's entry to the EU in 1973 (Quaglia 2014). The IASB was therefore perceived as a partisan body, clearly on one side of the EU's accounting divide.

IASB was little more than an accounting 'think-tank' for most of its history. It provided ideas on modern accounting principles and practices that informed national reform debates. However, in the early 1990s it tried to capitalize on the spread of multi-country listings by transnational corporations by advocating the application of IFRS for multinational companies listed on several international stock exchanges. It secured a formal agreements with the International Organisation of Securities Commissions (IOSCO) to this end. Consequently, the IASB also invited the Commission to take an observer status and participate in a consultative group involved in formulation of standards (Heidhues and Patel 2007).

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\(^8\) The IASB was called International Accounting Standards Committee (see Veron 2007).

\(^9\) The IFRS were called International Accounting Standards till 2001 (see Veron 2007 for the evolution of this terminology).
The IASB proposal seemed in line with the evolution in EU member states. As large European corporations expanded globally and sought capital on foreign markets, they were required to compile the second set of financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). This was costly and burdensome. To ease administrative burdens many EU member started to recognize consolidated accounts in US GAAP. Germany, for example, recognized them in 1988 (Heidhues and Patel 2007). Given the flexibility of accounting directives, the use of the US GAAP as equivalent to national accounting standards did not constitute any breach of EU rules. Hence, the global market pressures for common rules favored imposition of US standards in the EU and globally, despite the misgivings in continental economies (Quaglia 2014, Posner 2010, Nolke and Perry 2007, van Hulle 2004). At the same time, the use of the US standards created some confusion that undermined credibility of national rules. The classic example of such problems was the case of Daimler-Benz. When listing on the New York Stock Exchange in October 1993, the firm reclassified its annual profit of DM 615 million under the German accounting standards into a loss of DM 1,800 million under the US GAAP due to differences in treatment of pension provisions (Veron 2007:30; van Hulle 2004:356). German investors were unnerved by such discrepancies and many of them looked favorably to the more transparent US rules (Heidhues and Patel 2007).

In responses to these developments and to the IASB and IOSCO invitations, the Commission organized a high-level conference on the future of harmonization of accounting standards in 1990. Although, there was an agreement to take into account the harmonization efforts at a broader international level, the member governments expressed a "clear preference … for not reducing the number of options in the [Accounting] Directives, [and] for not adopting new legislation in the near future" (Commission 1995:3). The conference seriously raised a possibility of harmonizing global rules, in order to facilitate intra-EU harmonization, but filed to break the joint-decision trap induced deadlock.

The first option was hampered by the lack of EU capacity to formulate a complete set of accounting standards, especially given the prevailing divisions of policy preferences (Quaglia 2014). Moreover, there was a serious risk that the US would not recognize the new EU standards as equivalent to its own, in which case they would only add yet another layer of rules, instead of removing them (van Hulle 2004). Similarly, the acceptance of the US GAAP as EU standards was hardly feasible. It would mean a complete surrendering of sovereignty over accounting standards, which are not a purely technical matter as they generate distributional consequences. Moreover, accepting US rules for the largest companies that seek capital across the globe, would not translate into harmonization of EU-wide accounting. The small and medium enterprises would be left out. Such objections favored the IFRS option.

The Communication, however, drew greater response from the US authorities than from member states. Within the US financial market authorities there were influential supporters of the development of IFRS, who favored international convergence (Posner 2010, Camfferman and Zeff 2007). They saw it as a way to prevent possible rivalry between the dominant US and EU standards that could emerge from European debate on accounting harmonization (see Drezner 2007). In 1996

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\(^{10}\) Prior to 2001 the IFRS were called International Accounting Standards (IAS) (see Veron 2007 for evolution of naming conventions).
the US Securities and Exchange Commission (SEC) publicly supported emerging IFRS and released detailed criteria for their usage in the US (SEC 1996). The US authorities also supported IOSCO endorsement of IFRS in 2000 (Posner 2010). At the same time, however, they pushed for reforms of the IASB's governance in order to protect its independence (Mattli and Buthe 2005).

The governance reform proposal was largely a preemptive move. The US authorities presumed that if the EU threw its weight behind the IFRS, it was likely to ask for more control. Although, the SEC shared this goal, it also tried to prevent EU dominance in IASB and preserve the political autonomy of its experts (Posner 2010, Martinez-Diaz 2005). Since EU took no decision on the Commission proposals from 1995, it had no common position on the IASB reform. Hence, the final outcome reflected the preferences of the US and 'Anglo-Saxon' member states, who were involved on their own initiative. The experts that defined the content of accounting standards remained insulated from political pressures, but public authorities and transnational firms that jointly financed IASB activities increased their indirect influence on the agenda-setting and other operational matters (see Veron 2007 for the details). The completion of the IASB governance reform enabled the US to declare the intention to recognize IFRS as compatible with US GAAP (Posner 2010), which was something they refused with regard to EU's Accounting Directives (Commission 1995).

The prospect of US recognition and the IASB reform strengthened Commission's case for acceptance of IFRS as EU standards. The 'Anglo-Saxon' member states that supported the IFRS approach since 1960s, naturally agreed to this harmonization strategy. Hence, the key for successful exit was to gain support of the 'Continental' coalition that remained reluctant.

The Commission included the harmonization of accounting statements to the list of reforms promoted by the 1999 Financial Services Action Plan (FSAP). The plan was designed to develop a
truly integrated, single financial market for the upcoming single currency (Commission 1999). It consisted of 42 legislative measures that would remove regulatory obstacles to financial market integration and respond to changes brought about by globalization and information technologies. The FSAP goals for accounting were formulated in the Communication on EU financial reporting strategy (Commission 2000).

The strategy consisted of an adoption of the IFRS as EU accounting standards from 2005 onwards. However, to make the proposal acceptable to all EU member states, it was a carefully delineated package deal, linking together several important issues:

- **Limited scope.** The IFRS was to be applicable only for consolidated accounting, but not for annual accounts of the individual parts of the consolidating entity. This provided a compromise between the requirements of financial markets that prefer to analyze companies on consolidated basis, and national tax and regulatory authorities that focus on annual accounts of each individual firm within their jurisdiction. Moreover, the IFRS would be applicable from 2005 only to about 7000 publically listed firms. Member states were allowed, but not obliged, to extend the IFRS application to unlisted firms and SMEs. This was crucial for protection of the Mittelstand interests that were at heart of the continental opposition to IFRS. At the same time, the Accounting directives would be made compatible to IFRS so that the basic accounting concepts applicable to small and large companies remain consistent (XXXX).

- **Control.** The Commission imposed an IFRS endorsement mechanism on both technical and political level.\(^\text{11}\) This would insure that the IASB considers the views of the EU that was by

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\(^{11}\) The IFRS standards are recognized under the 2002 Regulation within an comitology procedure if they meet three conditions: (i) are not contrary to the principle of true and fair view as established the fourth and seventh Company Law
far the single most important user of its standards. While the direct EU influence over the IASB was constrained by the US imposed governance that protect its independence, the EU certainly had more control over the standard content than over the US GAAP that many member states previously accepted. It also retained the right not to endorse individual sets of standards or 'carve out' specific provision found unacceptable. The Commission was to oversee the endorsement process and the IASB accepted commitment to update IFRS for the EU purposes before the 2005 implementation deadline.

- **Global harmonization.** The US commitment to IFRS recognition was a crucial pillar of the Commission strategy. After the US rebuttal of potential recognition of EU standards (Commission 1995), the IFRS promised the only way to harmonize both EU and global rules at the same time, while avoiding potential rivalry. This was important for large transnational corporations as well as for professional accounting and auditing firms that were important political constituencies in favor of internal and global harmonization. Moreover, it also reflected the global response to East Asian financial crisis that centered on convergence of global regulatory standards as recognized by the Financial Stability Forum that was sponsored by the G7 and international organizations such as IMF.

The carefully crafted compromise based on the Commission's strategy eventually provided a successful exit from the joint-decision trap. The Regulation 1606/2002 that formalized those proposals was accepted unanimously in the Council in March 2002 and in the European Parliament it received 492 votes out of 526 in June 2002 (Vernon 2007). It allowed the EU to progress towards harmonized accounting standards for large firms, without losing elementary compatibility with accounting rules for SMEs. It also enabled the EU to avoid acceptance of US GAAP, while having a directives; (ii) conform the criteria of understandability, relevance and reliability and (iii) are conducive to ‘European public good’. The last condition represents a political safeguard for the EU authorities (Quaglia 2014, Dewing and Russel 2008).
commitment the US commitment to global convergence on IFRS basis. At the same time, it was a very complicated and fragile arrangement, the long-term viability is being tested ever since.

**Sustaining the global exit during the crisis and beyond**

*This is only very rough sketch of the section*

The 2002 exit from the long-standing joint-decision trap was based on traditional mechanisms well described in the literature (see Table 1 for summary). In the end, it was a package deal brokered by the Commission, which linked together the EU harmonization with the US commitment to recognize IFRS and separated it from the harmonization of SME accounting rules that remained too controversial. Moreover, it delegated the task to formulate complex compromises to technocratic actors and transform the negotiations into a piecemeal process of endorsing over 40 different standards, which allowed speeded adoption of all acceptable rules that were no longer held hostages to the few contested provisions. These exit mechanisms benefited from the strong interaction between the EU and global levels of governance, without which the exit from the joint-decision trap would be impossible. This in turn suggests that the interaction between the global and EU levels provides new opportunities for such exits.

The accounting exit strategy closely resembles the 'Lamfalussy' exit observed in related financial market domains such as securities markets (see Kudrna 2011). The substance of the Lamfalussy procedure is in reduction of the transaction costs of bargaining over the most contested and the most technical aspects of the policy (Lamfalussy et al. 2001). This is achieved by complementing the usual community method with two more levels of committees composed of representatives of national policy-makers and regulators respectively, who prepare and approve implementing regulations and directives (see Christiansen and Vaccari 2006). The expert committees have the capacity to formulate more complex compromises than are possible on the political level of
community method, they are able to deliver such proposals faster and adapt them more frequently to important market developments (see Kudrna 2011). Moreover, the Lamfalussy procedure prevents reopening of the contested directives and thus repeated attempts of some member states to renegotiate earlier agreements from scratch.

The Lamfalussy procedure was implemented first in securities regulation in 2001 and later expanded to banking and insurance. The arrangement in accounting closely resembles this procedure, but the IASB - not any EU level body - serves as the crucial 'Level 3' committee that provides the fundamental capacity to formulate more complex, yet more harmonized rules. The 'Level 2' committee that serves the formal comitology role for the Commission is the Accounting Regulatory Committee. The final endorsement of the IFRS is done by the Commission, as required under the Meroni doctrine and the 2002 directive.

The integration of the IASB into the EU governance demonstrates the plausibility of a close integration of the EU-level and global-level governance that was instrumental for the JDT exit in accounting. It shows that the EU-global interactions provide not only opportunities for importing rules, but also for integration of governance procedures that can support the strategy of 'harmonizing globally to harmonize internally'. At the same time, the 2002 agreement on IFRS implementation does not imply that the potential for the joint-decision trap is removed once for all. The global exit in accounting needs to be sustained in the face of testing circumstances.

Part of the endorsement deal between the EU and IASB was that the latter would improve the standards in order to avoid their revisions shortly after their adoption (Leblond 2011). This was completed by late 2004, just a few days before the implementation deadline. However, the
endorsement process revealed that the conflict of policy preferences among the EU states may transform into a conflict between the EU and IASB. This was the case during the the 2003 to 2004 brinkmanship over the endorsement of the IAS 39 that specifies the rules of the fair value accounting of financial instruments. The adoption of this principle was the most divisive issue during the pre-2002 EU debate and it resurfaced again.

The IAS 39 extended the scope of application of fair value approach well beyond its traditional limits in continental European economies and even beyond the US and UK practice at the time. Many European banks lobbied intensely against the endorsement and the Commission asked IASB to limit the extent of its application (see Kudrna 2014, Leblond 2011). The IASB perceived the request as a challenge to its independence as well as its legitimacy of the standard-setter, while the EU threatened that it would carve out two of the most contested parts of IAS 39, when transposing the standard to the EU legislation. Eventually, the IASB accepted one of the EU's demands, but did not budge on the other (Quaglia 2014, Posner 2010). Instead, it agreed to a plan to redefine the IAS 39 as a new IFRS 9 standard.

The use of such carve outs undermines the viability of the global JDT exit as it is at odds with the 'harmonize globally to harmonize internally' strategy. The EU influence over IFRS is constrained by the need to preserve IASB credibility, which is fundamental for the acceptance of IFRS by national authorities in the US and across the world (Leblond 2011). Also the support from multinational corporations is conditioned on IASB capacity to ensure EU-US and global convergence.

The IASB signed an agreement with the US standard setting body — the Financial Accounting Standards Board (FASB) — on cooperation towards the convergence of accounting standards in 2002. This was supposed to abolish the obligation for the EU companies active in the US to
reconcile their accounting to US standards. However, when the US approved the equivalence in 2007, it applied only to the 'pure' IFRS rules, thus explicitly refuting the EU carve out (Leblond 2011).

The IAS 39 conflict also reappeared during the peak of the financial crisis in 2008. The US relaxed its fair value rules and the IASB followed after some EU pressure with similar changes to IAS 39 (see Leblond 2011). These ad hoc changes aimed to stabilize asset valuations during market turbulences, by reintroducing more traditional accounting rules always favored by the 'Continental approach'. The delayed IASB response to the Commission request also reopens the EU concerns that the Board was not sufficiently responsive to jurisdictions that directly apply its standards (Leblond 2011). The EU pressure resulted in creation of the Monitoring Board populated by regulators representing the IOSCO, the European Commission, the Financial Services Agency of Japan, and US Securities and Exchange Commission. The new Board strengthens the influence of public authorities on the convergence of global accounting rules.

The global convergence, and in particular the US-EU convergence, is largely stalled since 2008. The G20 pushes the IASB and FASB to produce converged drafts, while their respective stakeholders from the European and US markets push different perspectives on contested aspects of new rules (Kudrna 2014). Thus the five years since the onset of crisis, there is no solution to the old fair value controversy.

Compared to the early 2000s, the balance of power between the US and EU authorities is more even. The US GAAP is no longer a hegemonic rule without alternative and the US interest in convergence has increased, not least because of the equivalency clauses introduced by the Transparency and Prospectus directives of 2003 and 2004. These clauses define rules for assessment of which third
country accounting rules are equivalent to those of the EU and allows firms from such recognized countries to issue securities in the EU without further adaptations. This is an attractive option for the US corporations, which gives the EU more bargaining power than it had a decade ago. Nonetheless, these changes had no observable impact on the stalemate in the process of the EU-US convergence.

Moreover, since the equivalence between IFRS and US GAAP was a major part of the package deal that broke the JDT-induces stalemate within the EU, the limited progress empowers the voices criticizing the EU commitment to IFRS. There is also the view that the IFRS have moved too much towards the US position, shared by some Commission officials and some member states, such as France (Quaglia 2014). This motivates the EU effort to gain more influence over the IASB, but it may also encourage voices to reduce the global commitment and return to the traditional ways of internal harmonization. Hence, the risk that the global exit was only temporary arrangement that may not be sustained in future is currently increasing.

CONCLUSION

For several decades the EU has struggled with the harmonization of accounting. Several attempts led to delicate compromises that allowed only for minimum harmonization, with ample room for national interpretations. The switch from the unanimity requirement to qualified majority voting did not suffice to resolve deadlock resulting from intra-EU divisions. Neither did other established exit-mechanism elaborated in the literature on the JDT.

Rather, the EU harmonization in accounting followed a pattern that is characteristic for the broader domain of financial market regulation, where international standards are developed first and EU standards second. While the EU constitutes the largest financial market worldwide and possesses
substantive regulatory capacity and expertise in this area - factors that scholars of international regulatory governance consider key for exerting international influence – internal political divisions undermined its external role.\textsuperscript{12} In that sense, the JDT not only constituted a key hurdle for intra EU-harmonization, it also put the EU at the defensive with respect to global regulatory competition with the US.

From the perspective of multi-level EU governance it is important to appreciate that it was only when intra-EU policymaking was linked to global negotiations - with the Commission playing a key role in making this link – that substantive progress at the policy level was possible. The Commission was instrumental in orchestrating the deal underpinning regulation 1606/2002, providing for intra-EU harmonization on the basis of international accounting standards. Linking EU policymaking to the global level, changed the opportunity structures of member governments and allowed the Commission to formulate carefully structured and unanimously acceptable package deal on accounting harmonization.

The accounting deal did not rely on entirely new JDT exit mechanisms, but extended the applicability of known mechanisms to an additional level. The global accounting regime became an integral part of the existing multi-level governance system, which allowed the replication of the 'Lamfalussy' exit from the joint-decision trap, which was successfully implemented on EU level in related financial market policies. This exit mechanism relies on delegation of contested decision-making to the expert level (venue shifting), where the bargaining is less politicized, more reliant of epistemic consensus and by order of magnitude more complex. However, the accounting remains a unique example of global exit, because in no other was a global body - IASB - integrated to the same extent within the

\textsuperscript{12} Works on the EU’s rule on regulatory governance often rely on the “unitary actor” assumption, hence largely ignoring questions of internal EU-unity and domestic politics.
EU governance structures. At the same time, the long-term sustainability of the arrangement is being tested by recent events, which may induce the EU to abandon the global cooperation and opt for more EU-level-only governance arrangement.

Nonetheless, the broader discussion of the JDT literature as well as the clear global dimension of the case at hand suggest that the growing significance of the global level of governance affect the internal policy-making dynamics within the EU. The interaction multilevel systems in the EU or federal states with the global level change the structure of opportunities and constrains and allow various actors - such as the Commission - to propose mutually acceptable solutions that are simply not available in case of no global interaction. Hence, global exits are limited to situations where rule making at the European and the global levels overlap.

At the same time, the global exit clearly combines the exogenous mechanisms that change the decision-making environment (through national preferences), with the endogenous mechanisms that require agency on the part of internal actors. The EU-global interaction is no automatic mechanism that would inevitably guarantee exits from long-standing joint-decision traps, but it adds a novel dimension to all existing exit mechanisms that can be utilized by various actors in an increasing number of globalized policy domains.
REFERENCES


