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Preparers' and Non-Preparers' Lobbying on the Proposed Prohibition of Goodwill Amortisation in ED3 'Business Combinations'

ABSTRACT

In this paper preparers' and non-preparers' positions regarding accounting for goodwill are examined through studying submitted comment letters on ED3 'Business Combinations'. Preparers have, because of economic consequences, incentives to lobby for the non-amortisation approach and non-preparers for the amortisation approach. As hypothesised, non-preparers are found to support amortisation of goodwill to a greater extent than do preparers. Moreover, the two groups' supportive arguments, i.e. how they argue for or against the non-amortisation or amortisation approach, are studied. Again, as hypothesised, the results show that the two groups use the same type of 'sophisticated' framework based arguments instead of economic consequences arguments. Taken together the examination of the comment letters thus indicates that both preparers and non-preparers point at conceptual strengths and weaknesses, instead of pointing at the real cause of the lobbying activities, i.e. perceived economic consequences, when they try to affect the final outcome of the standard. These findings confirm earlier

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research which has suggested that self-interested lobbyists use accounting theories and concepts as useful justifications.

Keywords: *Lobbying, economic consequences, standard setting, comment letters, goodwill.*

1. INTRODUCTION

Accounting numbers in financial reports can have different sorts of economic consequences (Watts and Zimmerman, 1978, 1986, 1990; Allee et al., 2008; Fields et al., 2001; Baker and Hayes, 1995; Holthausen, 1990; Holthausen and Leftwich, 1983). Since the design of an accounting standard affects the accounting numbers in financial reports, various actors, with the aim of maximising their own utility, may try to affect the accounting standard by lobbying the standard setter (Ramanna, 2008; Yen et al., 2007; Zeff, 1978, 2002; Hill et al., 2002; Mian and Smith, 1990; Hope and Briggs, 1982; MacArthur, 1988). One way of influencing the International Accounting Standards Board (the IASB) is to argue for or against proposed accounting standard changes in comment letters that are submitted to the IASB. The present study focuses on one specific accounting issue, accounting for goodwill. The actors' positions and supportive arguments, regarding the delicate question how goodwill should be accounted for, are investigated through studying comment letters submitted to the IASB.

In March 2004 the IASB issued a new standard; the much debated IFRS 3 'Business Combinations'. IFRS 3 regulates accounting for goodwill (and other accounting issues related to business combinations). One major difference between IFRS 3 and its predecessor IAS 22 'Business Combinations', was that goodwill amortisation now was prohibited; instead impairment tests had to be conducted annually or more frequently: 'Goodwill acquired in a business combination shall not be amortised. Instead, the acquirer shall test it for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, in accordance with IAS 36 *Impairment of Assets*' (IASB 2004a, paragraph 55).

Before a new standard is issued, the IASB follows a due process procedure that allows comments from interested parties. The most observable form of feedback is submitted comment letters. In this study submitted comment letters on Exposure Draft 'Business Combinations' (ED3), which preceded IFRS 3, are examined with focus on the proposed prohibition of goodwill amortisation. The aim of the study is twofold: The first aim is to establish whether there is any difference between the positions of two respondent groups, 'preparers' and the 'non-preparers', regarding the proposed changes in goodwill accounting rules. This 'counting of votes approach' ignores one obvious important aspect in the comment letters; namely the supporting arguments. Therefore, the second aim is to examine how the respondent groups, through *supporting arguments*, try to persuade the IASB to prohibit (or not prohibit) the amortisation of goodwill. Or expressed differently; which lobbying strategies do the respondent groups employ in their submitted comment letters when they attempt to affect the IASB in a specific direction?

The two aims are achieved through analysing the respondent groups' a) *positions* and b) *supportive arguments* regarding the prohibition (or non-prohibition) of goodwill. It is hypothesised (in hypothesis 1) that the two groups have different *positions* regarding the amortisation or non-amortisation of goodwill; to be more precise it is hypothesised that, due to accounting related economic consequences, the preparers to a higher extent than the non-preparers support a prohibition of goodwill amortisation. Moreover, it is hypothesised (in hypotheses 2 and 3) that the two groups, despite different positions regarding the amortisation or non-amortisation of goodwill, employ the same lobbying strategy when the *supportive arguments* are put forth in the comment letters.

The rest of the article is organised as follows. The next section describes the background to ED3/IFRS 3 while section 3 describes the two basic comment-letter research approaches. Section 4 develops the hypotheses and section 5 presents the coding of the comment letters. The results are discussed in section 6 while section 7 summaries and draws conclusions.

2. BACKGROUND

In September 1999, the U.S. standard setter Financial Accounting Standards Board (FASB) published an exposure draft titled 'Business Combinations and Intangible Assets'. Interested parties were invited to comment on it. The exposure draft proposed that goodwill should be amortised over a period of maximum 20 years which was in line with the International Accounting Standards Committee's (IASC's)[1] corresponding standard IAS 22 at that time. The FASB's standard in effect at that time, APB 17, prescribed a maximum goodwill amortisation period of 40 years.

The proposed change (i.e. a maximum goodwill amortisation period of 20 years instead of 40 years) together with a proposed prohibition of the pooling method, was exposed to intense lobbying (Zeff, 2002). The lobbying efforts were successful; the FASB issued a revised exposure draft, 'Business Combinations and Intangible Assets – Accounting for Goodwill', in February 2001. The revised draft proposed prohibiting amortisation of goodwill to be 'compensated' by impairment tests conducted annually or more frequently if there was an indication of goodwill impairment between the annual tests, and this was also the policy in the consequent (final) Financial Accounting Standard (SFAS) No. 142 'Goodwill and Other Intangible Assets'. The prohibition of goodwill amortisation, however, brought the FASB's Financial Accounting Standard SFAS No. 142 into conflict with IASC's corresponding standard (IAS 22).

In December 2002 the IASB issued ED3 (IASB, 2002) as well as Exposure Draft of Proposed Amendments to IAS 36 'Impairment of Assets' (ED36) and IAS 38 'Intangible Assets' (ED38). As noted earlier, ED3 proposed prohibiting goodwill amortisation. The IASB invited respondents to comment on the exposure draft. A direct question regarding the amortisation (or non-amortisation) of goodwill was posed in ED3: 'The Exposure Draft proposes that goodwill acquired in a business combination should be recognised as an asset and *should not be amortised* [the author's italics]. Instead, it should be accounted for after initial recognition at cost less any accumulated impairment losses (see proposed paragraphs 50-54 and paragraphs BC96-BC108 of the Basis for Conclusions). Do you agree that goodwill acquired in a business combination should be recognised as an asset? If not, how should it be accounted for initially, and why? *Should goodwill be accounted for after initial recognition at cost less any accumulated impairment losses?* [the authors italics]. If not, how should it be accounted for after initial recognition, and why?' (IASB, 2002; p. 8 question 8). The IASB conducted field visits and took part in a series of round-table discussions during the comment period; in addition, comment letters received from interested parties were analysed (IASB, 2004b).

The IASB's proposal of a prohibition of goodwill amortisation was in line with the stated convergence ambition between the IASB and FASB manifested in the so called 'Norwalk Agreement' (FASB/IASB, 2002). Initially, convergence was meant to happen the other way around; i.e. the FASB would converge with the IASB. Thus, as noted, the FASB had originally proposed a goodwill amortisation ceiling of 20 years in line with the IASC's IAS 22. But, because of lobbying against the FASB, this had been changed to a prohibition of goodwill amortisation in SFAS No. 142 and this prohibition was then subsequently also proposed by the IASB, in ED3. For some reason in the Basis for Conclusions on ED3 (IASB, 2002a) and the Basis for Conclusions on IFRS 3 (IASB, 2004) the IASB does not point out the IASB/FASB convergence ambition as one of the reasons for prohibiting goodwill amortisation. I will return to how the IASB argued for its position, later on in the article.

3. DIFFERENT APPROACHES

Many earlier comment letter studies have 'counted votes'; i.e. established the respondents positions through an examination of the content in the submitted comment letters (see for example Georgiou and Roberts, 2004; Larson, 2008; Hochberg et al., 2009; Hill et al., 2002; Dechow et al., 1996; Mian and Smith, 1990; Pacecca, 1995; McKee et al., 1984; Buckmaster and Hall, 1990; Watts and Zimmerman, 1978)[2]. Vote-counting studies often '…attempts to identify incentives associated with the decision to lobby and seeks to analyse the impact of such incentives on the lobbying positions of constituents …' (Stenka and Taylor, 2010; p. 125). Moreover, examinations of the content in the comment letters, with the purpose of establishing the respondents' supportive arguments, have been conducted (Stenka and Taylor, 2010; MacArthur, 1988). The two approaches have also been combined (MacArthur, 1999; Schultz and Hollisater, 2003; Weetman et al., 1996; Weetman, 2001; Tutticci et al., 1994; Jupe, 2000; Yen et al., 2007). The present study also combines vote-counting and an analysis of supporting arguments. One benefit of doing so is that one can see how comment letter respondents' positions correspond with their supporting arguments. If preparers support prohibiting goodwill amortisation and non-preparers do not, this suggests that the respondents' positions are influenced by accounting related economic consequences. If so, it would be interesting to know whether 'economic consequences' are also used as a supporting argument. If not, i.e. if the respondents do not use economic consequences as a supporting argument, this suggests that the respondents are not sincere in their supporting arguments.

Watts and Zimmerman (1979) argue that the theoretical arguments employed by lobbying groups are just useful justifications. The evidence provided by Watts and Zimmerman (1979) is however to some extent anecdotal. It is indeed difficult to prove that supporting arguments are merely justifications or a 'means to an end'. Nevertheless, the design of the dual approach in this study makes it possible to examine whether Watts and Zimmerman's (1979) proposition is valid.

The use of comment letters as a proxy for lobbying has been criticised for only capturing one aspect of the whole spectrum of lobbying activities (Walker and Robinson, 1993). Lobbying also includes field visits and round-table discussions, for example. If they had been added to this study, the number of respondents (and possibly the number of positions and supporting arguments) would have been higher. Thus, by focusing on the publicly available submitted comment letters, I probably do not capture the full lobbying spectrum. Nevertheless, all studies must in some way prioritise and in this study, I chose to give priority to the examination of the *most observable form of accounting lobbying*; comment letters submitted to the IASB. Except for being the most observable form of lobbying, publicly published positions and arguments have another advantage; they are, arguably, what the respondents want (or think they are supposed) to stand for in public. Submitted comment letters and other public reports are like autobiographies (Catasús, 2001); they are edited to the extent that they fit the picture that the author wants to communicate.

4. DEVELOPMENT OF HYPOTHESES

In this study three hypotheses are developed and tested. The first hypothesis concerns the respondents' positions and the second and third hypothesis concern the supportive arguments put forth by the respondents. The three hypotheses are as follows:

4.1 Hypothesis 1 regarding the respondents' positions

The present study builds on positive accounting theory which is an extension of agency theory originally formulated by Jensen and Meckling (1976). Positive accounting theory is based on the belief that rational actors use accounting to maximise their own utility. It is reasonable to assume that rational actors, e.g. management, try to influence the standard setting process in a certain direction through lobbying[3] given that the benefits of lobbying outweigh the cost of lobbying (Sutton, 1984; Watts and Zimmerman, 1978, 1986, 1990). The benefits of lobbying activities which aim to influence the design of a new or revised accounting standard, can be accounting related cash flow effects (Watts and Zimmerman, 1978, 1986, 1990; Zeff, 1978), accounting related cost of capital effects (Leuz and Verrecchia, 2000; Leuz and Schrand, 2009; Hail and Leuz, 2006; Lambert et al., 2007; Healy et al., 1999; Welker, 1995; Botoson, 1997; Sengupta, 1998) and/or accounting related share price effects. Put simply; the reason for the lobbying activities, which in this study are represented by submitted comment letters on ED3, are assumed to be accounting related economic consequences.

One of the aims of the study is to examine the respondents' stated positions regarding the proposed prohibition of goodwill amortisation. In line with Stenka and Taylor (2010) and Lindahl (1987), the respondents are grouped into 'preparers'[4] and 'non-preparers'. It is hypothesised that the preparers to a greater extent than the non-preparers support the non-amortisation approach.

Preparers are hypothesised to prefer the 'impairment only' approach (i.e. the non-amortisation approach) for two reasons.

First, it seems likely that preparers would prefer to decide when to recognise an expense (Watts, 2003). Because the impairment test is subjective it is, within certain limits, possible for the preparer to decide when goodwill should be written-down (and thus when the expense should be recognised in the consolidated income statement). This possibility facilitates earnings management and since prior research suggests that managers do manage earnings (Leuz et al., 2003; Healy, 1985; Healy and Wahlen, 1999; Nelson et al., 2002; Lev, 2003; Scott, 2003; Graham et al., 2005; Collison et al., 1996), it is reasonable to suppose that the proposed impairment only approach is supported by the preparers. Earnings management can, depending on the top managers' motives, aim at a)maximising earnings, b)smoothing earnings or c)minimising earnings[5].

a) Bonus payments are often bounded by 'caps' (ceilings) and 'floors'; bonuses are not paid out if earnings are below the floor and no incremental bonus payments are made if earnings are above the cap. Healey (1985) documented that top managers, when the (pre-manipulated) earnings were below the cap but above the floor, manipulated earnings upward. Since the impairment only approach prohibits goodwill amortisation charges, and gives management, to a high extent, the discretion over when goodwill should be written down, upward manipulation of earnings is facilitated.

Upward manipulation can affect bonus payments directly, if bonuses are based on earnings, but also indirectly through the share price, if the bonus contract is based on the share price. Whether upward manipulation affects the share price is contingent on the capital market's ability to see through the manipulation.

b) Preparers might also want to smooth earnings to avoid earnings volatility (Saemann, 1999; Leuz et al., 2003; Graham et al., 2005). Management dislike earnings volatility probably because they believe (right or wrong depending on how efficient the capital market is) that higher earnings volatility leads to a (perceived) higher cost of capital and to a lower share price which can affect their bonuses. Of course, there can also be a direct link between earnings volatility and bonuses if that is stipulated in the bonus contract.

c) Finally, a new CEO has incentives to engage in 'big bath' accounting. A goodwill write down signals that the former CEO did a 'poor job'. A goodwill write down also makes future goodwill write downs less probable; the new CEO can thus 'save profits' for future years. In addition, Healy (1985) showed that an intentional lowering of earnings (i.e.'profit saving') can be anticipated by management (and not just by newly appointed top managers) if earnings are below the floor of the bonus plan. The saved profits can increase the probability of future bonus payments either directly or indirectly; directly if the bonuses are tied to future earnings or indirectly via a higher future share price (given that the bonuses are tied to the development of the share price).

Second, goodwill was at the time of the issuance of ED3 not amortised in the U.S., leaving European companies at a perceived 'competitive advantage' (due to, when compared to their US/FASB complying counterparts, higher amortisation charges). This 'competitive disadvantage' could be perceived by management as having a negative impact on the share price which in turn could affect management's bonuses. The 'competitive disadvantage' can also affect the bonuses directly if the bonus payments are based on the earnings differential between for example (European) company A and (US) company B.

On the other hand, preparers might *not* prefer non-amortisation on grounds that it might lead to higher costs of preparing financial reports and of auditing. But companies lobbying are generally large (Francis, 1987; Schalow, 1995; Ang et al., 2000; Gilfedder and Ó hÓgartaigh, 1998; Larson, 1997), a result confirmed here as well, which suggest that incremental preparing/auditing costs, would be small. The lobbying companies in this study are in general large (multinational) companies[6], e.g. Coca-Cola and Astra-Zeneca (Appendix A describes the preparers in detail).

The non-preparers are mainly auditing organisations and national standard setters[7]. According to the economic theory of regulation auditing firms would prefer more complex accounting methods like the non-amortisation method since that would lead to more demand for their (auditing) services (Stigler, 1971).

On the other hand, the non-amortisation approach is more subjective (amortisation is substituted by highly subjective annual impairment tests), difficult to verify and increases the risk of litigation. Because of the increased litigation risk, which auditing firms try to avoid (Moizer, 1992), it is reasonable to assume that the non-preparers prefer the amortisation approach. In addition, events like the Enron/Worldcom collapses and the subsequent Arthur Andersen debacle, may have made the auditing firms even more 'risk averse' and conservative.[8]

To summarise, the first hypothesis here (H1) is that;

- H1: Preparers support the impairment-only approach to a greater extent than do non-preparers.

4.2 Hypotheses 2 and 3 regarding the respondents' supporting arguments

It is hypothesised (in hypothesis 2 and 3) that there will be no differences between the supporting arguments put forth by preparers and non-preparers for reasons that will follow.

4.2.1 Usefulness and cost-benefit considerations

The IASB has *usefulness* as its main objective and is thus (officially) not consensus-oriented and should also not, according to its constitution and framework, consider (possible) economic consequences[9] except for cost/benefit considerations: 'The balance between benefit and cost is a pervasive constraint rather than a qualitative characteristic. […] it is difficult to apply a cost-benefit test […] Nevertheless, standard-setters in particular, as well as the preparers and users of financial statements, should be aware of this constraint' (IASB, 2001; pp. 17–18, paragraph 44). This means that the cost of preparing financial statements should not be too high, but other (accounting related) economic consequences should not be considered.

According to the IASB, for accounting information to be useful, it must meet some pre-specified criteria in IASB's framework; i.e. understandability, relevance, reliability and comparability (IASB, 2001). The framework does thus not see the actual *use* of financial information as an indicator of the usefulness of financial information.

When the IASB issues exposure drafts or financial reporting standards it presents its reasons, in most cases based on its own framework, in a document called 'Basis for Conclusions'. In the 'Basis for Conclusions on ED 3 Business Combinations' the IASB presented the following supportive arguments for why goodwill amortisation should be abolished: 'The Board agreed that achieving an acceptable level of reliability in the form of representational faithfulness, while at the same time striking some balance between what is practicable, was the primary challenge it faced in deliberating the subsequent accounting for goodwill. The Board observed that the useful life of acquired goodwill and the pattern in which it diminishes generally are not possible to predict, yet its amortisation depends on such predictions. As a result, the amount amortised in any given period can at best be described as an arbitrary estimate of the consumption of acquired goodwill during that period. The Board acknowledged that if goodwill is an asset, in some sense it must be true that goodwill acquired in a business combination is being consumed and replaced by internally generated goodwill, provided that an entity is able to maintain the overall value of goodwill (by, for example, expending resources on advertising and customer service). However, the Board was doubtful about the usefulness of an amortisation charge that reflects the consumption of acquired goodwill, whilst the internally generated goodwill replacing it is not recognised. Therefore, the Board concluded that *straight-line amortisation of goodwill over an arbitrary period fails to provide useful information*. The Board noted that *both anecdotal and research evidence supports this view*' [the author's italics] (IASB, 2002a; p. 40, BC107).

In sum, the IASB supported its position by a conceptual discussion based on the framework: '…straight-line amortisation of goodwill over an arbitrary period fails to provide useful information'. This is how the IASB normally argues for its positions. But that the IASB referred to that '… both anecdotal and research evidence supports this view' is unconventional and can not be deduced from the framework.

The IASB thus argued that accounting information regarding goodwill amortisation charges was not *used* by the users (and should therefore be prohibited). When IFRS 3 was issued, the IASB also published a press release, which referred explicitly to value relevance research (IASB 2004b; pp. 4-5): 'In addition, both anecdotal and research evidence supports the view that the amortisation charge for goodwill has little, if any, information value for most users of financial statements, and that an impairment-only model provides users with more useful information. See, for example, [the article] *Goodwill Amortization and the Usefulness of Earnings* [written by Ross Jennings; Marc LeClere and Robert B. Thompson II in The Financial Analysts Journal, September/October 2001], which describes the findings of empirical research undertaken in response to the FASB's decision to eliminate goodwill amortisation. Extracts from the authors' summary of the article are provided below: […] 'Our results find evidence consistent with the criticisms of the previous accounting rules for goodwill. In each year and for the six-year period as a whole, earnings before goodwill amortization explain more of the variation in share prices than reported earnings, and for each year, the difference in explanatory power is statistically significant. […] Overall, these results indicate that the recently adopted reporting rules for purchased goodwill are likely to increase the usefulness of earnings as a summary indicator of share value.'' (IASB 2004b; pp. 4–5).

Thus the IASB, not only employed *internal logic arguments* (i.e. the accounting information is not useful since it does not meet the qualitative characteristics) but also *consumption arguments* (i.e. the accounting information is not useful since it is not used). Or explained differently. The IASB not only employed *normative* arguments (this is how goodwill should be accounted for since it, from a conceptual perspective, is *valuation relevant*)[10] but also *descriptive* arguments (this is how goodwill should be accounted for since it, from a security pricing perspective, is *value relevant*)[11].

4.2.2 Hypothesis 2

Tutticci et al. (1994) concluded that comment letter respondents generally use a rather sophisticated strategy. Instead of using the economic or political consequences argument the respondents generally employed *conceptual arguments* to support their stated opinion: '…lobbyists are adept at applying the standard setters' 'accepted' view in their lobbying strategy' (Tutticci et al., 1994; p. 102). These findings are supported by Stenka and Taylor (2010). Similar results are expected to be found in this study. Even though preparers and non-preparers may prefer different goodwill accounting methods, it is hypothesised here that both groups utilise arguments that they reasonably believe the IASB will listen to; namely usefulness arguments (based on *internal logic* or *consumption*) and/or arguments based on *cost-benefit considerations*, rather than arguments like 'this proposal will affect our earnings negatively/positively, which will have a negative/positive impact on the share price, and therefore we are against the proposal'[12]. Arguments based on *internal logic* and *cost-benefit considerations* can be deduced from the IASB's framework, which is the reason why I think that those types of supportive arguments will be utilised. Arguments based on *consumption* will be employed since the IASB used that argument in the Basis for Conclusions on ED3.

The reason for hypothesising no difference between the two groups (with regard to their supporting arguments) is that they can be assumed to be well informed about which arguments the IASB (at least officially) listens to. This is, as aforementioned, supported by the findings made by Tutticci et al. (1994) and Stenka and Taylor (2010).

To summarise, the first hypothesis here (H2) is that;

- H2: 'Sophisticated'/conceptual arguments (i.e. usefulness and cost-benefit arguments) and economic/political consequences arguments, are used equally by both preparers and non-preparers.

4.2.3 Hypothesis 3

This study also examines whether respondents who are described as having rather sophisticated strategies by earlier studies (Tutticci et al., 1994; Stenka and Taylor, 2010), except for internal logic arguments, also add consumption arguments to support their positions. Since the IASB employed consumption arguments (when the abolishment of goodwill amortisation was argued for), it is investigated to what extent the two respondent groups utilised the possibility to employ consumption arguments, when trying to influence the standard setter. This means that a further examination of the respondents that utilised the usefulness (or lack of usefulness) argument is made. To what extent did they use *internal logic* arguments and *consumption* arguments? Also here it is hypothesised that the respondent groups are similar when it comes to the employment of the *internal logic* argument and the *consumption* argument. Over the years, the lobbyists (from both respondent groups) have learned which arguments that the IASB (officially) pays attention to; therefore there should be no difference between the two respondent groups.

To summarise the above standing:

- H3: Internal logic arguments and consumption arguments are used equally by both preparers and non-preparers.

5. CODING OF THE COMMENT LETTERS

Content analysis was applied to code the text in the comment letters. Figure 1 below maps the coding of the comment letters. First, the respondents were, after a detailed review of the written submissions, divided into those who stated a position with regard to question 8 (should goodwill be prohibited?) in ED3 and those who did not.

Then the respondents were divided into supporters of the 'amortisation approach' (i.e. goodwill amortisation should not be prohibited) and supporters of the 'non-amortisation approach' (i.e. goodwill amortisation should be prohibited). If a respondent was of the opinion that goodwill amortisation should be a)required or b)allowed, then that respondent was categorised as a supporter of the 'goodwill amortisation approach'. Otherwise, the respondent was categorised as a supporter of the 'non-amortisation approach'.

Next division was contingent on whether the respondents supported their positions with arguments or not. The respondents who used supporting arguments were split into those using 'sophisticated'/conceptual arguments, i.e. usefulness and cost-benefit arguments, and those using other types of arguments, i.e. economic or political consequences arguments[13].

The *usefulness* arguments, which in this study are rather broadly defined, are divided into usefulness arguments from an '*internal logic* perspective' and from a '*consumption* perspective'[14]. A usefulness argument can for example be that 'the proposal will not lead to useful accounting information since the level of uncertainty will be too high; therefore the proposal does not meet the qualitative characteristic reliability'. As can be seen, in this case, the proposal is seen as 'good' or 'bad' depending on whether the proposal meets some conceptually based pre-defined criteria in the IASB's framework. If the usefulness criteria in the IASB's framework, i.e. understandability, relevance, reliability and/or comparability, directly or indirectly are employed by the respondents in the submitted comment letters, the argument is referred to as an *internal logic argument*. Another type of usefulness argument can for example be that 'the proposal will not lead to more useful information since the capital market generally excludes this specific type of accounting

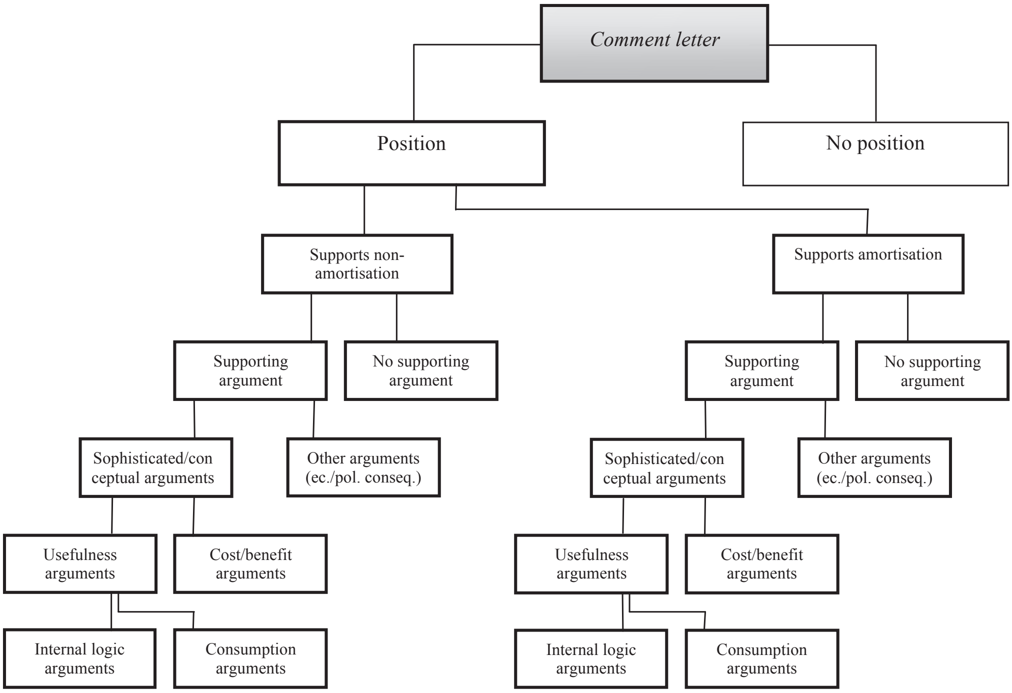

FIGURE 1. A flowchart of the coding of the comment letters.

information when pricing securities'. In this case the actual use (i.e. *consumption*) of accounting information is invoked, and the comment is therefore coded as a *consumption argument*.

Comment letter respondents took a position on prohibition (or non-prohibition) of goodwill amortisation, in 94 of the 128 letters submitted and linked on the IASB's website (see Table 1). The comment letters were coded as 'no position' if:

1) the prohibition (or non-prohibition) of goodwill was not discussed or the prohibition (or non-prohibition) of goodwill was discussed but the discussion only gave an ambiguous/blurry answer or no answer at all (32 comment letters) or

2) the members constituting the respondent had no agreement regarding the prohibition (or non-prohibition) of goodwill (1 comment letter) or

3) the internet link to the comment letter on the IASB's website did not work (1 comment letter)

Of the 94 letters that took a position:

- 73 stated their position and supporting arguments specifically in response to the question.
- 6 stated their positions and gave supportive arguments in a general discussion.
- 14 stated their position but did not give supporting arguments (and were therefore excluded from the further analysis of supporting arguments).
- 1 gave only supporting arguments explicitly from which the position could be deduced indirectly. (see Table 2)

In total, then, the *positions* of 94 respondents and the *supporting arguments* of 80 respondents, are analysed.

Content analysis can either be 'form-oriented' or 'meaning-oriented' (Smith & Taffler, 2000). Form-oriented (objective) content analysis involves the systematic counting of for example keywords. Meaning-oriented (subjective) analysis instead focuses on the underlying themes in the text under investigation. In the present paper, the author alone employs meaning-oriented content analysis which potentially could be less reliable. The positions and supportive arguments in the

TABLE 1. The total number of submitted comment letters, positions and supportive arguments.

The total number of submitted comment letters	**128**
The total number of respondents that stated a position (that could be established)	**128 – 34 = 94**
The total number of respondents that supported their positions with arguments (that could be established)	**94 – 14 = 80**

TABLE 2. ***How the positions and supportive arguments could be established.***

	Were, with regard to question 8, the *supportive arguments* explicit?	
Did, with regard to question 8, the respondents give an explicit *answer/position*?	**Yes**	**No**
Yes	***I.*** **Only the direct answer on question 8 had to be studied. Both the positions and the arguments behind the positions could be found under question 8).**	***II.*** **Except for the explicit answer the general discussion (if one such existed) had to be studied in order to find possible arguments behind the position.**
No	***III.*** **If only the arguments (but not the positions) were explicitly given, the positions could be deduced through studying the arguments.**	***IV.*** **The general discussion (if one such existed) had to be studied.**

comment letters were however, with only some exceptions, straight forward. The need for interpretation was thus limited. Nevertheless, as noted by Krippendorf (1980), studies based on content analysis are always subject to reliability problems (more or less), and this paper is no exception.

6. RESULTS AND DISCUSSION OF THE RESULTS

Chi[2]-tests were conducted to test the three hypotheses. In Table 3, the preparers' and the non-preparers' positions regarding the proposal to prohibit goodwill amortisation, is presented. As hypothesised (H1), the preparers supported the non-amortisation approach to a greater extent than the non-preparers. The difference was significant at $p < 0{,}01$ level.

TABLE 3. The preparers' and the non-preparers' positions regarding prohibiting goodwill amortisation.

	Preparers	Non-preparers	Total
Supports non-amortisation	**26 (57,8%)**	**14 (28,6%)**	**40**
Supports amortisation	**19 (42,2 %)**	**35 (71,4%)**	**54**
Total	**45 (100%)**	**49 (100%)**	**94**

$\chi^2 = 6{,}886$; $p < 0{,}05$ ($p = 0{,}004$ with Pearson's chi-square test)

In Table 4, the supporting arguments are presented. A respondent could use *sophisticated/conceptual* arguments and other arguments, i.e. arguments based on *economic/political consequences*, or a *combination*. The Institute of Chartered Accountants in England & Wales represents a good example of a *sophisticated/conceptual usefulness* argument (CL 90): '…we strongly disagree that all goodwill should be subject to an 'impairment only' regime […] goodwill and identified intangibles, which are similar in nature, will be subject to different accounting treatment. This diminishes comparability and reliability…'. Kingston Smith represents a good example of a *sophisticated/conceptual cost/benefit* argument (CL 14): 'We also believe that the impairment review will cause an unnecessary burden and additional cost for smaller businesses'. Finally, Novartis represents a good example of an *economic/political consequences* argument (CL 94): 'It seems unlikely that the FASB would re-align with IAS 22, and the elimination of this significant difference would remove one excuse for the SEC not proceeding faster with acceptance of IFRS financial statements for foreign registrants. For gaining this pragmatic advantage we could therefore accept adoption of the proposed impairment-only approach.'

TABLE 4. Supporting arguments employed by the preparers and the non-preparers.

	Preparers	Non-preparers	Total
Sophisticated/conceptual arguments (only)	**34 (89,5%)**	**41 (97,6%)**	**75**
Economic/political consequences arguments (only)	**0 (0%)**	**0 (0%)**	**0**
Sophisticated/conceptual arguments AND Economic/political consequences arguments	**4 (10,5%)**	**1 (2,4%)**	**5**
Total	**38 (100%)**	**42 (100%)**	**80**

***p* > 0,05 (*p* = 0,185 with Fischer's exact test)**

As hypothesised (H2) no significant difference between the two groups could be established ($p > 0,05$ level)[15]. Or put simply; the preparers and non-preparers used rather similar supportive arguments in their written submissions when they tried to convince the IASB[16]. Noteworthy is that when the respondents used economic/political consequences arguments they also used sophisticated/conceptual arguments concurrently. Economic/political consequences arguments were thus never used in isolation.

Table 5, finally, shows to what extent, when the usefulness arguments were employed, the respondents used *internal logic* arguments, i.e. framework based usefulness arguments, and *consumption* arguments. The Association of Chartered Certified Accountants represents a good example of an *internal logic* argument (CL 86): 'The critical argument put forward in the ED concerns the relevance and usefulness of the information provided. The usefulness of goodwill write down information may be limited whichever option is chosen. […] Comparability between entities is not likely to be accomplished very satisfactorily by either method (i) because of the measurement difficulties…and (ii) because impairment only creates new anomalies on the recognition of internally generated intangibles between entities growing organically and those growing by acquisition'. An example of a *consumption* argument is represented by UBS (CL 83): 'We agree with the Board that the useful life of acquired goodwill and the pattern in which it diminishes are generally difficult to predict. As such, the depreciation of goodwill is arbitrary and adds little value to investors. We do not believe that this change will have significant impact on investors as they have been looking at pre-amortisation performance for many years'.

Again, as hypothesised (H3), no significant difference between the two groups could be established ($p > 0,05$ level)[17]. The two respondent groups used rather similar supportive argu-

TABLE 5. Supporting usefulness arguments employed by the preparers and the non-preparers.

	Preparers	Non-preparers	Total
Internal logic arguments (only)	**36 (94,7%)**	**42 (100%)**	**78**
Consumption arguments (only)	**0 (0%)**	**0 (0%)**	**0**
Internal logic AND Consumption arguments	**2 (5,3%)**	**0 (0%)**	**2**
Total	**38 (100%)**	**42 (100%)**	**80**

***p* > 0,05 (*p* = 0,222 with Fischer's exact test)**

ments, i.e. mostly internal logic arguments, when they tried to convince the IASB[18]. When the respondents used consumption arguments they also used internal logic arguments concurrently. Consumption arguments were thus never used in isolation.

To summarise (all as hypothesised):

- The preparers supported the impairment-only approach significantly more than did the non-preparers.
- There was no significant difference between the two groups in their use of 'sophisticated'/ conceptual arguments versus economic/political consequences arguments.
- There was no significant difference between the two groups in their use of internal logic arguments versus consumption arguments.

Expected economic consequences are suggested to be the main reason for why the preparers/top management supported the non-amortisation approach and for why the non-preparers preferred the amortisation approach. Top management is assumed to have a preference for the non-amortisation approach since it facilitates earnings management; managed earnings can namely either directly (if the bonus payments are tied to earnings figures) or indirectly (if the bonus payments are tied to the development of the share price) have a positive effect on the bonus payments. The non-preparers are assumed to support the amortisation approach since goodwill amortisation (when compared to the goodwill impairment test) is less subjective and easier to verify; the amortisation approach would thus reduce the risk of litigation. The results showed that there was a significant difference between the two groups at $p < 0{,}01$ level. The preparers supported the prohibition of goodwill amortisation to a higher extent and the non-preparers supported the alternative approach, i.e. the non-prohibition of goodwill amortisation, to a higher extent. These results, which imply that the respondents have acted from self-interest, support earlier research results within the positive accounting field (see for example Hill et al., 2002; Watts and Zimmerman, 1978; Mian and Smith, 1990; Dhaliwal, 1980).

That preparers disproportionately supported prohibition of amortisation might indicate that they generally prefer the valuation method over the cost allocation method. The results might indicate just the opposite, however, given reliable market prices. Most probably, the highly subjective goodwill impairment test makes it easier for top management to decide when expenses should be recognised. On the other hand, impairment tests are not (as) subjective, if at all, when it comes to assets that have reliable markets prices. When assets have reliable market prices the space for income smoothing[19] in connection with the annual revaluations is limited (Laux and Leuz, 2009). Thus (given reliable market prices), the application of the valuation method can lead to higher earnings-volatility and should therefore not *generally* be assumed to be preferred by the preparers. It is rather probable that their support (or non-support) for the valuation method is contingent on the existence of reliable market prices.

Even though economic consequences are suggested as the main reason why the preparers supported the non-amortisation approach and the non-preparers supported the amortisation approach, both groups mainly used *sophisticated/conceptual* arguments based on *usefulness* (or lack of usefulness) and *cost/benefit* considerations. The statistical test showed that there was no significant difference between the two groups regarding the use of *sophisticated/conceptual* arguments and non-framework *economic/political consequences* arguments. Only 5,0% (4/80) of the respondents used *economic consequences* and 1,3% (1/80) of the respondents used *political consequences*, as supportive arguments[20]. The results concerning the lobbying strategies confirm results from earlier studies; i.e. that the use of the economic consequences argument is limited (Tutticci 1994; MacArthur, 1999; Stenka and Taylor, 2010) and moreover that there is only a small difference between preparers and non-preparers with regard to the use of economic consequences as a supportive argument (Stenka and Taylor, 2010). Weetman (2001), on the other hand, found economic consequences cited more frequently, but she had a broader definition of the concept (than I have).

Additionally, when compared with Tutticci et al. (1994) who examined submitted comment letters on an exposure draft issued in 1989, MacArthur (1999) who examined submitted comment letters on an exposure draft issued in 1990 and Stenka and Taylor (2010) who examined submitted comment letters on exposure drafts issued during the period 1988-1993, the results in this study, which are based on submitted comment letters on ED3 issued in 2002, might indicate learning. The economic consequences argument, when cost/benefit-considerations arguments are not included, is namely less frequently employed in this study than in Tutticci et al. (1994), MacArthur (1999) and Stenka and Taylor (2010). The economic consequences argument is employed by 5,0% *of the respondents* in this study and by 20,8%[21] *of the respondents* in MacArthur (1999); the economic consequences arguments accounted for 15,3% and 6,7% *of the total number of arguments* in Stenka and Taylor (2010) and Tutticci et al. (1994)[22] respectively.

The results suggest that respondents/lobbyists in this study, with data from comment letters submitted in 2002 and 2003, employed a somewhat more sophisticated lobbying strategy than respondents/lobbyists from the late 1980's and the early 1990's; this may imply that lobbyists have learned how to (better) adapt their supportive arguments to the IASB's language/ framework. Moreover, the fact that no respondent, in the present study, used the economic consequences argument in isolation, i.e. without an accompanying sophisticated/conceptual argument, suggests the same thing (i.e. learning). Nevertheless, the different settings in the referred studies make a reliable direct comparison difficult. It is thus not possible to draw any general conclusions regarding learning based on the results in this and the other referred studies.

The results regarding the use of *internal logic* arguments and *consumption* arguments showed that only two of the respondents cited the capital market's consumption of accounting information as a supportive argument. Internal logic based arguments were used by all 80 respondents. It can be seen as a bit odd that only two of the respondents employed the consumption argument, since the IASB explicitly used consumption, or to be more precise the lack of consumption, of accounting information as a supportive argument in the ED3. It thus seems that they (the respondents/ lobbyists) have more faith in 'traditional' usefulness arguments taken from the IASB's framework than in arguments based on the actual use of accounting information.

7. SUMMARY AND CONCLUSIONS

The first hypothesis that non-preparers support amortisation of goodwill to a greater extent than do preparers, was deduced from the proposition that management seeks to maximise its own utility by, among other things, lobbying the standard setter (Jensen and Meckling, 1976; Watts and Zimmerman, 1978, 1986, 1990; Sutton, 1984). The lobbying activities are carried out since proposed new or changed accounting standards affect the accounting information in financial reports, which in turn can have accounting related economic consequences. Since the hypothesis was supported by the data in the comment letters, the theory of management as utility maximising agents, whose preferred accounting solutions are affected by perceived accounting related economic consequences, is strengthened.

Taken together the examination of the comment letters indicates, in line with hypotheses 2 and 3, that both preparers and non-preparers point at conceptual strengths and weaknesses (mostly based on the framework but also, two respondents, based on the consumption of accounting information), instead of pointing at the real cause of the lobbying activities, i.e. perceived economic consequences, when they try to affect the final outcome of the standard. Or put simply; even though preparers and non-preparers have different positions regarding prohibiting goodwill, arguably based on (perceived) differences in economic consequences for themselves, both groups avoid arguments based on economic consequences.

This conclusion is in line with Watts and Zimmerman (1979) who argued that 'Instead of providing 'an underlying framework' for the promulgation of 'sound' financial reporting practices by standard-setting boards, accounting theory has proven a useful 'tactic to buttress one's preconceived notions' [Zeff, 1974, p. 177]' (Watts and Zimmerman, 1979; p. 301) and moreover 'While a self-interest theory can explain accounting standards, such a theory will not be used to justify accounting standards because self-interest theories are politically unpalatable' (Watts and Zimmerman, 1979; p. 301).

Still, even though the comment letter respondents may not express their real reasons, some of their arguments can be highly relevant; these highly relevant arguments can in an ideal world affect the final standard so that, in turn, more useful accounting information, as defined by the IASB's framework, is produced in the financial reports[23]. The IASB can thus pick out the raisins in the 'argument cake'. However, if a more general consensus approach is applied by the IASB, IASB's stated goal in the framework, useful accounting information, might not be reached. Thus, the more a standard is affected by political/economic considerations, rather than by conceptual considerations, the greater is the risk that the standard will not lead to useful accounting information in the financial reports, which is why the IASB should stick to the framework when new standards are designed.

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APPENDIX A. A LIST OF THE COMMENT LETTER RESPONDENTS

Table 6 displays 1)companies and organisations that represent multiple companies and 2)have submitted comment letters to the IASB and expressed a position for or against goodwill amortisation. Table 7 shows non-preparers, mostly represented by auditing/accounting organisations and national standards setters, who have submitted comment letters to the IASB and expressed a position for or against goodwill amortisation.

TABLE 6. Preparers; lobbying company or organisation representing one or more companies.

	For or against the IASB's 'impairment-only' proposal	Supp-ortive argu-ment (yes/ no)	Type of argument; sophisticated/ con-ceptual, economic/ political or both	Type of usefulness argument; internal logic, consumption or both
CL 005. Association Francaise des Entreprises Privées (AFEP)	For	Yes	Sophistic./ conceptual	Internal logic
CL 006. National Association of Insurance Commissioners (NAIC)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 007. Valuation Research Coporation	For	Yes	Sophistic./ conceptual	Internal logic
CL 011. Chamber of Commerce and Industry of Southern Sweden	Against	Yes	Sophistic./ conceptual	Internal logic
CL 019. Stagecoach Group Plc	Against	Yes	Sophistic./ conceptual	Internal logic
CL 022. Nokia Corporation	For	No		
CL 025. Wesfarmers Limited	For	No		
CL 033. London Investment Banking Association (LIBA)	For	Yes	Sophistic./ conceptual	Internal logic
CL 037. Mayne Group Limited	For	No		
CL 042. Société Générale (France)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 042a. BNP Paribas	Against	Yes	Sophistic./ conceptual	Internal logic
CL 046. Nippon Keidanren (Japan Business Federation)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 047. Holcim Group Support Limtied	Against	Yes	Sophistic./ conceptual	Internal logic
CL 049. F Hoffmann La Roche	Against	Yes	Both	Internal logic
CL 052. Syngenta AG	Against	Yes	Both	Internal logic
CL 067. Australian Bankers' Association	For	Yes	Sophistic./ conceptual	Internal logic

CL 068. BG Energy Holdings	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 070. GlaxoSmithKline	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 073. Confederation of British Industry (CBI) (UK)	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 074. Industrie-Holding	**Against**	**Yes**	**Both**	**Internal logic**
CL 076. Goldman Sachs Group Inc.	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 077. Association pour la participation des entreprises françaises à l'harmonisation comptable internationale (ACTEO)	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 077b. Mouvement des Entreprises de France (MEDEF)	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 078. European Round Table of Industrialists (ERT)	**For**	**No**		
CL 079. Nestlé	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 083. UBS	**For**	**Yes**	**Sophistic./ conceptual**	**Both**
CL 085. 100 Group of Finance Directors	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 088. BP Plc	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 089 AstraZeneca Plc	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 091. Epic Energy Corporate	**For**	**No**		
CL 093. Allianz	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 094. Novartis	**Against**	**Yes**	**Both**	**Internal logic**
CL 095. AWG Plc	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 096. Group of 100	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 097. J P Morgan Chase & Co.	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 099. Bundesverband deutscher Banken	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 105. Dovebid-Bache Valuation Services	**For**	**Yes**	**Sophistic./ conceptual**	**Both**
CL 115. Association of British Insurers (ABI)	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 116. RWE Aktiengesellschaft	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 117. Coca-Cola HBC S.A	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**

CL 119. Commonwealth Bank of Australia	For	Yes	Sophistic./ conceptual	Internal logic
CL 121. International Association of Financial Executives Institutes (IAFEI)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 122. Credit Mutuel	For	No		
CL 123. International Actuarial Association	For	Yes	Sophistic./ conceptual	Internal logic
CL 127. HSBC Holding Plc	For	No		

TABLE 7. ***Non-preparers; auditing/accounting organisations, national standards setters and others.***

	For or against the IASB's 'impairment-only' proposal	Supp-ortive argu-ment (yes/ no)	Type of argument; sophistic./ conceptual, economic/ political or both	Type of usefulness argument; internal logic, consumption or both
CL 004. Maria & Carlos Subelet	For	Yes	Sophistic./ conceptual	Internal logic
CL 009. Organismo Italiano di Contabilita (OIC)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 014. Kingston Smith	Against	Yes	Sophistic./ conceptual	Internal logic
CL 017. Foreningen Auktoriserade Revisorer FAR	Against	Yes	Sophistic./ conceptual	Internal logic
CL 021. Canadian Acccounting Standards Board	For	No		
CL 023. Institut der Wirtschaftsprufer (IDW)	Against		Sophistic./ conceptual	Internal logic
CL 024. Institute of Chartered Accountants of Scotland	Against	No		
CL 026. Bas Kleine	Against	Yes	Both	Internal logic
CL 027. Japanese Institute of Certified Public Accountants (JICPA)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 030. Raad voor de Jaarverslaggeving (Council for Annual Reporting)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 032. China Accounting Standards Committee	Against	Yes	Sophistic./ conceptual	Internal logic
CL 035. Chamber of Auditors of the Czech Republic	For	No		
CL 036. Swedish Financial Accounting Standards Council	Against	Yes	Sophistic./ conceptual	Internal logic
CL 038. Instiute of Chartered Accountants of Pakistan	Against	Yes	Sophistic./ conceptual	Internal logic
CL 039. Accounting Standards Board of Japan	Against	Yes	Sophistic./ conceptual	Internal logic

CL 040. International Accounting Standards Review Committee of the Korean Accounting Standards Board (KASB)	For	No		
CL 041. CPA Australia	For	Yes	Sophistic./ conceptual	Internal logic
CL 044. Deloitte Touche Tohmatsu	Against	Yes	Sophistic./ conceptual	Internal logic
CL 045. South African Institute of Chartered Accountants	Against	Yes	Sophistic./ conceptual	Internal logic
CL 051. Norsk RegnskapsStiftelse - Norwegian Accounting Standards Board	For	Yes	Sophistic./ conceptual	Internal logic
CL 053. Institute of Certified Public Accountants of Kenya	Against	Yes	Sophistic./ conceptual	Internal logic
CL 054. Conseil National de la Comptabilité (CNC)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 055. Grant Thornton Chartered Accountants	Against	Yes	Sophistic./ conceptual	Internal logic
CL 057. Treuhand-Kammer	Against	Yes	Sophistic./ conceptual	Both
CL 059. Pitcher Partners	For	Yes	Sophistic./ conceptual	Internal logic
CL 060. European Financial Reporting Advisory Group (EFRAG)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 063. KPMG International	Against	Yes	Sophistic./ conceptual	Internal logic
CL 064. French Society of Financial Analysts	Against	Yes	Sophistic./ conceptual	Internal logic
CL 065. Institute of Chartered Accountants of Zimbabwe (ICAZ)	For	Yes	Sophistic./ conceptual	Internal logic
CL 066. Office of the Controller and Auditor-General	Against	Yes	Sophistic./ conceptual	Internal logic
CL 069. Russian Financial Reporting Council	Against	Yes	Sophistic./ conceptual	Internal logic
CL 080. Institute of Chartered Accountants of New Zealand (ICANZ)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 082. Chartered Institute of Management Accountants	For	Yes	Sophistic./ conceptual	Internal logic
CL 084. PricewaterhouseCoopers	For	Yes	Sophistic./ conceptual	Internal logic
CL 086. Association of Chartered Certified Accountants (ACCA)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 087. German Accounting Standards Committee	Against	Yes	Sophistic./ conceptual	Internal logic
CL 090. Institute of Chartered Accountants in England & Wales (ICAEW)	Against	Yes	Sophistic./ conceptual	Internal logic
CL 092. American Accounting Association	Against	Yes	Sophistic./ conceptual	Internal logic

CL 100. Hong Kong Society of Accountants	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 101. Foreningen af Statsautoriserede Revisorer (FSR)	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 102. Council on Corporate Disclosure and Governance (The) (CCDG)	**For**	**No**		
CL 108. Institute of Chartered Acccountants in Ireland	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 111. Mazars & Guerrard	**For**	**No**		
CL 112. Accounting Standards Executive Committee (The) (AcSEC) of the American Institute of Certified Public Accountants	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 113. Malaysian Accounting Standards Board	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 114. Australian Accounting Standards Board (AASB)	**For**	**No**		
CL 118. Institute of Certified Public Accountants in Ireland	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 120. David Damant	**For**	**Yes**	**Sophistic./ conceptual**	**Internal logic**
CL 124. Ernst & Young Global	**Against**	**Yes**	**Sophistic./ conceptual**	**Internal logic**

APPENDIX B. HOW SPSS REDUCED DEPENDENT VARIABLE CATEGORIES IN TABLE 4

SPSS reduced the number of categories in the dependent variable in Table 4, from three to two, since no respondent utilised 'Economic/political arguments' in isolation. Such reduction in the number of categories could be made by combing two categories into one in any of three ways as displayed in Table 8, 9 and 10. Regardless of how the categories are combined, there was no significant difference between preparers and non-preparers.

TABLE 8. ***The two categories 'Sophisticated/conceptual arguments AND Economic/political arguments' and 'Economic/political arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Sophisticated/conceptual arguments	**34 (89,5%)**	**41 (97,6%)**	**75**
Sophisticated/conceptual arguments AND Economic/ political arguments + Economic/political arguments	**4 (10,5%)**	**1 (2,4%)**	**5**
Total	**38 (100%)**	**42 (100%)**	**80**

***p* > 0,05 (*p* = 0,185 with Fischer's exact test)**

TABLE 9. ***The two categories 'Sophisticated/conceptual arguments' and 'Economic/political arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Sophisticated/conceptual arguments + Economic/political arguments	34 (89,5%)	41 (97,6%)	75
Sophisticated/conceptual arguments AND Economic/ political arguments	4 (10,5%)	1 (2,4%)	5
Total	38 (100%)	42 (100%)	80

p **> 0,05 (*p* = 0,185 with Fischer's exact test)**

TABLE 10. ***The two categories 'Sophisticated/conceptual arguments' and 'Sophisticated/conceptual arguments AND Economic/political arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Sophisticated/conceptual arguments + Sophisticated/conceptual arguments AND Economic/ political arguments [24]	38 (100%)	42 (100%)	80
Economic/political consequences arguments	0 (0%)	0 (0%)	0
Total	38 (100%)	42 (100%)	80

p **> 0,05 (*p* = 1 with univariate chi-square test)**

What we can conclude from the three combinations displayed in Table 8, Table 9 and Table 10, is that when the number of categories on the dependent variable is reduced to two categories, no significant difference could be established between the groups regardless of how the reduction of the categories was made. This suggests that the finding, i.e. that there is no significant difference between the preparers and the non-preparers regarding the use of supporting arguments, is robust and not affected by the researcher's choice of which categories on the dependent variable that are combined into one category.

APPENDIX C. HOW SPSS REDUCED DEPENDENT VARIABLE CATEGORIES IN TABLE 5

SPSS reduced the number of categories in the dependent variable in Table 5, from three to two, since no respondent utilised 'Consumption arguments' in isolation. Such reduction in the number of categories could be made by combing two categories into one in any of three ways as displayed in Table 11, 12 and 13. Regardless of how the categories are combined, there was no significant difference between preparers and non-preparers.

TABLE 11. ***The two categories 'Internal logic arguments AND consumption arguments' and 'Consumption arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Internal logic arguments	36 (94,7%)	42 (100%)	78
Internal logic arguments AND consumption arguments + Consumption arguments	2 (5,3%)	0 (0%)	2
Total	38 (100%)	42 (100%)	80

$p > 0{,}05$ ($p = 0{,}222$ with Fischer's exact test)

TABLE 12. ***The two categories 'Internal logic arguments' and 'Consumption arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Internal logic arguments + Consumption arguments	36 (94,7%)	42 (100%)	78
Internal logic arguments AND Consumption arguments	2 (5,3%)	0 (0%)	2
Total	38 (100%)	42 (100%)	80

$p > 0{,}05$ ($p = 0{,}222$ with Fischer's exact test)

TABLE 13. ***The two categories 'Internal logic arguments' and 'Internal logic arguments AND consumption arguments' are combined into one category.***

	Preparers	Non-preparers	Total
Internal logic arguments + Internal logic arguments AND Consumption arguments[25]	38 (100,0%)	42 (100,0%)	80
Consumption arguments	0 (0%)	0 (0%)	0
Total	38 (100%)	42 (100%)	80

$p > 0{,}05$ ($p = 1$with an univariate chi-square test)

What we can conclude from the three combinations displayed in Table 11, Table 12 and Table 13, is that when the number of categories on the dependent variable is reduced to two categories, no significant difference could be established between the groups regardless of how the reduction of the categories was made. This suggests that the finding, i.e. that there is no significant difference between the preparers and the non-preparers regarding the use of supporting arguments, is robust and not affected by the researcher's choice of which categories on the dependent variable that are combined into one category.

1 The IASC was the IASB's predecessor.

2 Studies that examine whether non-lobbying companies, i.e. companies that do not submit comment letters, significantly differ in one or more respects from companies that lobby, i.e. companies that do submit comment letters (see for example Deakin, 1989; Kelly, 1985), are also included under the 'counting of votes' approach heading. Other types of studies have not attempted to identify how incentives impact on the respondents' positions, but instead, through counting votes in comment letters, investigated how far the standard setter is from the respondents' positions expressed in the comment letters (see for example Brown, P.R., 1981); these studies are more focused on political/power-questions.

3 Gowthorpe and Amat (2005) make a distinction between macro manipulation and micro manipulation of financial statements. Macro manipulation of financial statements are lobbying activities that aim at persuading the standard setters 'to produce regulation that is more favourable to the interests of preparers' (Gowthorpe and Amat, 2005; p. 1). Micro manipulation of financial statements, instead, aims at producing a biased view of the company through creative accounting. In this study, the focus is on the macro manipulation of financial statements.

4 The term 'preparers' is used synonymously with corporations and management/top managers.

5 Earnings management can potentially also aim at making the accounting numbers in the accounts more relevant. If the top managers manage earnings, with the aim of making the accounting numbers more relevant for investors, then it can not be assumed to be done out of self interest.

6 In some cases the large companies are represented by collective organisations (Appendix A).

7 The national standard setters have historically been associations of auditing/accounting professionals and are therefore seen as an extension of the auditing firms/organisations. The non-preparer group also consists of other subgroups than auditing organisations and national standard setters; namely users, governments, academics and others. The respondents in these subgroups, however, only constitute a small part of the non-preparer group.

8 Moreover, lobbying studies have suggested that auditing companies will support their corporate clients in the lobbying process because of the business relationship (e.g. Meier et al., 1993; Watts and Zimmerman, 1986). Nevertheless, offsetting factors exist; if the cost is too high (for example because of increased litigation risk), auditing companies do not support their clients in the lobbying process (Meier et al., 1993). In addition MacArthur (1988a) suggests that auditing companies seem to be rather independent of their clients in the lobbying process.

9 Nevertheless, which should be mentioned, the IASB is put under strong political pressure. Epstein and Mirza (2005) point out that: 'The EU endorsement of IFRS turns out to have the cost of exposing the IASB to political pressures in the same way that the FASB has at times been the focus of congressional manipulations' (Epstein and Mirza, 2005; p. 11).

10 Accounting information is *valuation relevant* if it, according to some definition, *should be used* by the capital market in the share or company valuation process. The term 'valuation relevance' is also used by Flöstrand and Ström (2006); they, however, define the term differently.

11 Accounting information is *value relevant* if it *is being used* by the capital market in the share or company valuation process and this can be proved empirically (i.e. if there is a relation between accounting information and share prices).

12 A rather reasonable assumption is that economic consequences arguments (not included in the framework, i.e. not cost/benefit arguments) and political arguments are put forth 'behind the curtains'.

13 Other arguments (than usefulness/cost-benefit arguments) put forth by the respondents could, according to previous research, be assumed to be primarily *economic consequences arguments* (see for example Zeff, 1978; Weetman, 2001; Stenka and Taylor, 2010) and/or *political consequences arguments* (Zeff, 2002). Useful information in itself can, of course, lead to economic consequences if, for example, the capital market, as an effect of the useful information, becomes more efficient. To support a position with some sort of a *usefulness argument* can therefore, it can be claimed, be the same as indirectly support the position with an *economic consequences argument*. I am however only studying the *direct positions and supportive arguments* and *not the possible effects of the positions and supportive arguments*. This means that only if the respondents explicitly say that the proposal will lead to, for example, fewer merger and acquisitions, higher wage claims, higher costs when preparing the financial statements (without discussing the prospects of benefits in the form of 'better' accounting information), a more efficient capital market etc, then I will see that as an *economic consequences* related argument. If the respondents for example claim that the IASB will lose influence if the proposed standard is not changed or that there is, because of democratic reasons, a need for consensus regarding the accounting for goodwill, I will see that as a *political consequences* related argument.

14 In former communist countries in Eastern Europe, the government decided what should be produced. The suppliers (with the help of some sort of internal logic and not the consumers) decided what should be produced/supplied. The production/supply was not affected by the sum of individual preferences. Instead, some sort of internal logic decided what should be produced. On the other hand, in capitalist countries, the supply is steered by the consumers' demand. The same question is at hand when new standards are designed; should *internal logic* decide the outcome of the final standard or should the *consumption*, the actual use, decide the outcome of the final standard?
15 Since no respondent utilised 'Economic/political consequences arguments' in isolation, the statistical software SPSS treated Table 4 not as a six cell table but as a four cell table. Thus SPSS indirectly reduced the number of categories in the dependent variable. In Appendix B, the reduction of categories in the dependent variable is discussed.
16 Moreover, no statistically significant difference (p > 0,05) in use of sophisticated/conceptual and economic/political consequences arguments could be established *within* the two groups. The results thus show no statistically significant difference between preparers pro and preparers con on the one hand and non-preparers pro and non-preparers con, on the other. The results are provided upon request.
17 Since no respondent utilised 'Consumption arguments' in isolation, the statistical software SPSS treated Table 5 not as a six cell table but as a four cell table. Thus SPSS indirectly reduced the number of categories in the dependent variable. In Appendix C, the reduction of categories in the dependent variable is discussed.
18 Moreover, no statistically significant difference (p > 0,05) in use of internal logic and consumption arguments could be established *within* the two groups. The results thus show no statistically significant difference between preparers pro and preparers con on the one hand and non-preparers pro and non-preparers con, on the other. The results are provided upon request.
19 …or big baths or other types of earnings management.
20 In total 80 respondents supported their positions with arguments. Of these 80 respondents four respondents (4/80 = 5%) employed economic consequences arguments and one respondent employed a political consequences argument (1/80 = 1,3%). In total five respondents put forth economic/political arguments which equals 6,3% (5/80 = 6,3%).
21 In MacArthur (1999), the economic consequences argument was divided into 'Cost/benefit' (which seven respondents used), 'Extra Work/Costs' (which nine respondents used), 'Tax Effects' (which five respondents used) and 'Volatility' (which three respondents used). The investigation consisted of 24 respondents. According to my definition of economic consequences, only 'Tax effects' is a direct economic consequence; thus 5/24 = 20,8% of the respondents, according to my definition, used economic consequences in MacArthur (1999).
22 Tutticci et al. (1994) define economic consequences arguments as: '...discussions of the economic changes associated with the proposed standard together with the implications of those changes' (Tutticci et al., 1994; p. 94). Since I do not know how this rather general definition is applied/operationalised by Tutticci et al. (1994), it is not clear whether it should be considered as broader or narrower than mine. Stenka and Taylor (2010) define economic consequences in the following way: 'Economic consequences-based arguments are taken to refer to economic changes associated with proposed accounting regulations and the implications of those changes. Such economic changes would have scope (as perceived by respondents) to influence respondents' utility through the impact on their cash flows' Stenka and Taylor (2010; p. 118). This definition is somewhat narrower than mine since it only includes arguments based on company cash flow effects and not arguments based on, for example, a general decline in mergers and acquisitions. In Tutticci et al. (1994) 20 out of 131 arguments (20/131 = 15,3%) are economic consequences arguments. In Stenka and Taylor (2010) 32 out of 480 arguments (32/480 = 6,7%) are economic consequences arguments.
23 A rich man might very well, for example, argue that a wealth tax affects the GDP-growth negatively and should therefore not be introduced. Even though the 'actual reason' why the rich man opposes a wealth tax probably is that a wealth tax would reduce his wealth, his argument still might be valid and thus worth considering (given, of course, that negative GDP-growth is not seen as something positive).
24 'Sophisticated/conceptual arguments' means that the respondent has used 'sophisticated/conceptual arguments' in isolation, i.e. not together with another type of argument. 'Sophisticated/conceptual arguments AND other arguments' means that the respondent in his response has used sophisticated/conceptual arguments *together with* other arguments, i.e. economic/political arguments. So when these two categories are combined into one category, responses that contain arguments that are *either* 1)sophisticated/conceptual or 2)sophisticated/conceptual *and* economic/political, will fall under this category. Responses that *only* include arguments that are economic/political will fall under the other category, i.e. the 'Economic/political consequences arguments' category.
25 'Internal logic arguments' means that the respondent has used 'internal logic arguments' in isolation, i.e. not together with another type of argument. 'Internal logic AND consumption arguments' means that the respondent in his response has used internal logic arguments *together with* consumption arguments. So when these two categories are combined into one category, responses that contain arguments that are *either* 1)internal logic based or 2)internal logic based *and* consumption based, will fall under this category. Responses that *only* include arguments that are consumption based will fall under the other category, i.e. the 'consumption arguments' category.