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

In March 2004 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 was prohibited; instead impairment tests had to be conducted annually or more frequently.

Before a new standard is issued, 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, were examined with focus on the proposed prohibition of goodwill amortisation.

The aim of the study was twofold: The first aim was to establish whether there was any difference between the *positions* of two respondent groups, 'preparers' and 'non-preparers', regarding the proposed changes in goodwill accounting rules. The second aim was to examine how the respondent groups, through *supporting arguments*, tried to persuade the IASB to prohibit (or not prohibit) the amortisation of goodwill.

Content analysis was applied to code the text in the comment letters. Comment letter respondents took a position on prohibition (or non-prohibition) of goodwill amortisation, in 94 of the 128 letters.

Because of economic consequences, preparers had incentives to lobby for the non-amortisation approach and non-preparers for the amortisation approach. I expected that preparers would support the non-amortisation approach since it would make it easier for them to decide when expenses should be recognised. Since the non-amortisation approach is more subjective, difficult to verify and increases the risk of litigation, I expected non-preparers to oppose it. The results showed, as hypothesised, that preparers supported non-amortisation of goodwill to a greater extent than did preparers. Moreover, the two groups' supportive arguments, i.e. how they argued for or against the non-amortisation or amortisation approach, were studied. Again, as hypothesised, the results showed that the two groups used the same type of 'sophisticated' framework based arguments instead of economic or political consequences arguments.

Taken together the examination of the comment letters thus indicates that both preparers and non-preparers pointed at conceptual strengths and weaknesses, instead of pointing at the real cause of the lobbying activities, i.e. perceived economic consequences, when they tried to affect the final outcome of the standard. These findings confirm earlier research which has suggested that self-interested lobbyists use accounting theories and concepts as useful justifications. ■