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"COST" AS A CONSTRAINT ADDRESSED IN THE ACCOUNTING STANDARD CONCEPTUAL FRAMEWORK---THE CASE OF SUBSEQUENT ACCOUNTING FOR GOODWILL

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Abstract

This study analyzes how the "cost constraint" addressed in the accounting standard conceptual framework is operationalized to influence accounting method choice, particularly on issues regarding goodwill subsequent valuation. By analyzing a total of more than 200 comment letters to the FASB's 2019 Invitation to Comment and the IASB's 2020 Discussion Paper, this study analyzes the respondents' perceptions on the cost-benefit justifications of the current impairment-test approach and how such perceptions influence respondents' positions on reintroducing goodwill amortization. Findings in the analysis indicate that respondents' perceptions depend on their professional positions, and collectively, there is no consensus on a preferred method for subsequent goodwill valuation. With no consensus reached among stakeholders, the accounting standard-setting process becomes subjective and political. Standard-setters not only have to exercise subjectivity to reach a final accounting method choice, but also have to subjectively select the reasoning to justify their final method choice. The conceptual framework serves to provide potential justifications. In the case of goodwill subsequent valuation, the cost constraint is operationalized as the selected reasoning. The lack of consensus from common letter feedback provides justification for standard-setters' to exercise subjectivity.

Keywords: Cost Constraint, Conceptual Framework, IASB 2020 Discussion Paper, FASB 2019 Invitation to Comment; Subsequent Accounting for Goodwill; Comment Letters.

1. INTRODUCTION

"Cost" as a constraint on financial reporting is well established in the conceptual framework (Martens and Stevens 1994). Both the International Financial Reporting Standards (IFRS) and the US Accounting Standards Codification (ASC) have the Concept Statements that address the cost constraint: "...it is important that costs are justified by the benefits of reporting that information" (IFRS Conceptual Framework, Paragraph 2.39; ASC Concepts Statement No. 8, Chapter 3, Paragraph QC35). While cost in providing financial information is never defined in the Master Glossary in either set of standards, the Concept Statements did mention that providers of financial information expend efforts in collecting, processing, verifying, and disseminating financial information; the insinuation is that those are the cost components for information providers (IFRS Conceptual Framework, Paragraph 2.40, ASC Concepts Statement No. 8, Chapter 3, Paragraph QC38). According to the Concept Statements, in developing financial reporting standards, the standard-setters first assess costs and benefits, and then assess whether the costs of reporting particular information are likely to be justified by the benefits in providing such information. (IFRS Conceptual Framework, Paragraph 2.42, ASC Concepts Statement No. 8, Chapter 3, Paragraph QC39).

Benefits of accounting information are often studied by academic research (Ohlson 2001, Al Jifri & Citron 2009, Abughazaleh et al. 2012); however, costs of accounting information are not disclosed and are unobservable. So, how is the weighing between costs and benefits taking place? Do standard-setters just construct their own visualization of the cost constraint (Durocher & Georgiou 2022)? To what extent stakeholders' perceptions of costs and benefits are properly conveyed to the standard-setters? In accounting literature, the conceptual framework itself is sometimes criticized as being a self-referential rhetoric that might have lost touch with the financial information users (Stenka & Jaworska 2019, Stenka 2022, Georgiou et al. 2021, Durocher & Georgiou 2022). Overall, how concepts in the conceptual framework are operationalized in the development of accounting standards is not addressed enough in the literature. This study fills-in this shortage by focusing on the cost constraint, applied to a specific case of standard-setting: subsequent treatment for accounting goodwill.

Subsequent treatment for accounting goodwill has been one of the most challenging issues faced by the standard-setters (Ding et al. 2008, Peterson & Plenborg 2010, Abughazaleh et al. 2011, Avallone and Quagli 2015). Ever since the International Accounting Standard Board (IASB) and the US Financial Accounting Standards Board (FASB) changed the accounting for subsequent goodwill valuation from the amortization method to the impairment-test method in the earlier 2000s, many standard updates and modifications have been issued, often citing the cost concern as the reason. However, costs for providing accounting information specific for goodwill accounting is not observable (Black 2022), so, the weighing of costs against benefits for subsequent goodwill accounting imposes a challenge for standard-setters.

In 2019 and 2020, the FASB and the IASB each issued a discussion document to solicit market participants' direct inputs on their perceptions of the cost-benefit justification for goodwill accounting. Those documents provided a unique opportunity to study the operationalization of a concept established in the conceptual framework. This study analyzes feedback from comment letters responding to those discussion documents. First, this study analyzes the stakeholders by studying the professional positions of the respondents; then, preferences of accounting method for subsequent goodwill accounting are analyzed.

The professional positions of the respondents are of concern because in financial reporting costs are carried by information providers while benefits are received by information users. Given these misaligned positions and other possible self-interest concerns (Botzem 2012), a researchable question is whether an unbiased, faithful evaluation of cost-benefit justification can be reached. Accounting standards are applied to all stakeholders (Martens and Stevens 1994). If there is a generally accepted cost-benefit justification for subsequent goodwill accounting, then we expect to see uniform answers among all stakeholders. Without uniform answers among all stakeholders and given the misaligned cost-bearer versus benefit-receiver situation, we cannot rule out that stakeholders' perceptions of cost-benefit justification are driven by their own interests. In that case, the "political document" view of the conceptual framework (Miller 1985, Wyatt 1990) is supported; the operationalization of the conceptual framework could be a political process, with different interest groups competing to have their own interests prevail. Findings in this study indicate that the perceptions of cost-benefit justification are highly dependent on the professional positions of the respondents. While information providers mostly find the current impairment-test method not cost-benefit justifiable, information users mostly find the current method cost-benefit justifiable. The most intriguing finding is from the professional valuator respondents who charge fees for carrying out goodwill fair value impairment tests (Huikku 2017, Chen et al. 2019). All professional valuators find the current method cost-benefit justifiable. Overall, feedback from the comment letters presents diverse viewpoints from different stakeholders; the viewpoints are highly dependent on the respondents' professional positions.

Critics of the Conceptual Framework pointed out that languages in the framework are rhetoric difficult to operationalize (Stenka & Jaworska 2019, Stenka 2022, Georgiou et al. 2021) and that standard-setting is a political process (Miller 1985, Wyatt 1990). When the only consensus reached is that there is no consensus in accounting method preference, subjectivity must be exercised by the standard-setters. In this case, rhetorics in the form of a conceptual framework help the standard-setters to justify their subjectivity. For goodwill accounting, the cost-constraint is operationalized as the justification for the accounting method choice.

This study contributes to accounting literature in several ways. First, this study summarizes and documents feedback to two important discussion documents. Secondly, the focus on the cost-constraint fills-in a shortage in the literature. While benefits of financial information disclosures, particularly in the form of valuation relevance, have been well studied (Shalev 2009, Su & Wells 2015, Sun & Zhang 2017), the cost-constraints have not been addressed enough. This study contributes to that avenue.

The main contribution of this study, however, is to shed light on the operationalization of a concept established in the conceptual framework. By documenting the lack of a general preference on a specific accounting issue, this study highlights the subjective aspect in accounting standard-setting. When the process is becoming political, the justification for the subjective choice is important (Bamber and McMeeking 2016, Stenka 2022), and this is when concepts in the conceptual framework are operationalized. The understanding that standard-setting is political (Wyatt 1990), and that the conceptual framework should be understood as a political document is no novelty (Miller 1985, Martens and Stevens 1994). However, to document the operationalization with publicly available empirical data is still relatively rare in literature. The main contribution of this study is to provide such a documentation. The two discussion documents provided a unique opportunity to gauge stakeholders' preferences on a specific accounting method choice.

In a sense, what is documented here is that the cost-constraint in the conceptual framework is neither a description of a desired practice nor a prescription of the future practice (Miller 1985). The cost-constraint is the subjectively selected reasoning to justify the standard-setters' final accounting method choice. Criticism has it that the conceptual framework is a self-referential rhetoric (Young 2006, Stenka 2022, Durocher & Georgiou 2022). When understood as a political document (Miller 1985), the conceptual framework provides a necessary resort of possible justifications to support the standard-setters' accounting method choices.

The rest of this study is organized as follows: Section 2 addresses the cost concern given in the two sets of standards and reviews the limited literature that studies the cost concern. Section 3 presents the two discussion documents, focusing on their quest for cost-benefit justification; Section 3 also states the research question of this study. Section 4 is the main analysis of this study; feedback to the two discussion documents is analyzed here. Interpretation of the feedback is discussed in Section 5 and the conclusion remark is given in Section 6.

2. COST CONSTRAINT ADDRESSED IN THE STANDARDS AND IN PREVIOUS RESEARCH

2.1 The Conceptual Framework

The cost constraint on financial reporting is clearly established in the Conceptual Framework for both the IFRS and the US Statement of Financial Accounting Concepts:[1]

> IFRS Conceptual Framework, paragraph 2.39:
>
> "Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider." (Also, the US Statement of Financial Accounting Concepts No. 8, paragraph QC35)

IFRS Conceptual Framework, paragraph 2.42:

"In applying the cost constraint, the Board assesses whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information. When applying the cost constraint in developing a proposed Standard, the Board seeks information from providers of financial information, users, auditors, academics and others about the expected nature and quantity of the benefits and costs of that Standard. In most situations, assessments are based on a combination of quantitative and qualitative information." (Also, the US Statement of Financial Accounting Concepts No. 8, paragraph QC38)

Sentences in Paragraph 2.39 first acknowledge the cost constraint, and then immediately follow up with the cost-benefit justification. Paragraph 2.42 addresses the application of such a constraint and gives guidance on weighing costs against benefits. The key word is assessment. Neither the costs nor the benefits of particular accounting information are observable or readily available. According to the guidance given in the framework, the standard-setting entity has to seek information inputs from market participants regarding the benefits and costs in the first place, and then, to assess the justification weighing costs against benefits. This two-tier assessment process creates quite a challenge for the standard-setting entity. Often, we see the cost constraint cited as the reasoning in the promulgation of specific standard (ASU 2011-08 and ASU 2014-02 addressed below), yet, the nature and the quantity of the alleged costs are not clearly described, let alone clearly measured.

2.2 Application in individual standards

Application of the cost constraint to individual standards is often explained in the "Basis for Conclusions" section in each standard update. This study focuses on goodwill-related standard updates. After the initial switch of the subsequent goodwill accounting method from amortization to fair value impairment-test, following the US Accounting Standards Updates (ASU), several standard updates were issued that explicitly mentioned the cost concern. One example is ASU 2011-08.[2]

ASU 2011-08, Basis for Conclusions, BC12:

"The Board considered other alternative approaches that were intended to reduce the cost and complexity of performing the first step of the goodwill impairment test. As the Board deliberated each of the proposed alternatives, it assessed cost-benefit considerations…."

Such "Basis for Conclusion" provides clear evidence that the cost constraint is applied in reaching the standard updates. The key word is "assessment". First, the Board has to assess the costs incurred to the reporting entities, and then, the Board has to assess cost-benefit considerations. Another example that the cost constraint is applied can be found in ASU 2014-02.[3] ASU 2014-02 allows private entities the option to amortize goodwill (Lange et al. 2015, Mastracchio & Lively 2017).

ASU 2014-02, Basis for Conclusions, BC8:

"The Private Company Council added this issue to its agenda in response to feedback from private company stakeholders through various channels… The feedback indicated that the benefits of the current accounting for goodwill do not justify the related costs."

More ASUs were issued after ASU2014-02 and further modified goodwill accounting; many addressed the cost constraints.[4] As of early 2023, subsequent goodwill accounting is still an open project on the IASB's agenda.

2.3 Prior research

Cost constraint and the conceptual framework

In literature, only a limited number of studies address the cost constraint directly. The most direct evaluation of the cost constraint in operation is from Martens and Stevens (1994) who define "cost constraint" as: the commitment to setting an accounting standard only when the benefits of the standard exceed the costs of that standard to all stakeholders. Martens and Stevens (1994) analyze the "basis for conclusions" that lead to the FASB's issuance of Statement of Financial Accounting Standards (SFAS) No. 1 to No. 105. They document that, out of the 105 standards, 62 standards did not address the cost-constraint at all, 31 standards addressed cost without benefit concerns, and only 12 standards addressed the cost-benefit justification. In 1990, upon the issuance of SFAS No. 106: *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the cost-benefit justification stepped onto the center stage. Martens and Stevens (1994) argue that the issuance of SFAS No. 106 is an example that standard-setting failed to incorporate the potential social costs.

Wyatt (1990)[6] points out that standard-setting is a political process. In his commentary on the standard-setting process and on the conceptual framework, Wyatt (1990) addressed the political aspect of standard-setting and concluded that given the self-interest among different interest groups, the justification for accounting method choice is needed. The reliance on a set of conceptual frameworks helps to balance, and to resist the pleadings of special interests. Wyatt (1990) echoes an earlier assertion in accounting literature that the conceptual framework is better understood as a political document than as a purely conceptual effort to guide accounting practice (Miller 1985).

More recent studies on the rhetoric in accounting standards address the legitimacy and legitimation of accounting standard-setting (Bamber and McMeeking 2016, Stenka 2022, Durocher & Georgiou 2022). Stenka (2022) points out that taken-for-granted discursive rationalization and linguistic forms are often operationalized in accounting regulatory processes, deliberately or subconsciously. The manifestations of such taken-for-granted rhetoric are the conceptual frameworks. By interviewing financial analysts, Durocher & Georgiou (2022) document that the intended benefits of goodwill-related disclosures are not experienced by the statement users. Durocher & Georgiou (2022) argue that the standard-setters 'imagine' the benefits during the standard-setting processes. This 'imagined' benefit provides the standard-setters with flexibility and legitimacy to promulgate standards. Durocher & Georgiou (2022) concluded that accounting standard-setting failed to serve the public interest because financial analysts' practical needs are not met.

Cost for subsequent goodwill accounting

In literature, goodwill-related accounting issues have been heavily studied (Bostwick et al. 2015, Su & Wells 2015, Sun & Zhang 2017), particularly the information contents of subsequent goodwill accounting (Shalev 2009, Bens et al. 2011, Shalev et al. 2013, Su & Wells 2015). The findings are inconsistent. Some studies documented relevance of goodwill impairment losses in terms of firm valuation or future cash flows (Baboukardos and Rimmel 2014, Mazzi et al. 2017). Others failed to find significant improvements between amortization expenses and impairment loss disclosures, in terms of value relevance or debt covenants inclusion (Frankel et al. 2008, Li et al. 2011, Ben et al. 2011, Beatty et al. 2018). However, those studies focus on the benefit-side of specific goodwill-related account information. Only limited studies address the cost concerns. The reason is simple: costs incurred for goodwill disclosure are simply not disclosed.

Black et al. (2022) studied information providers' accounting choices when they have the option to use the two-step fair value impairment test or to apply the qualitative assessment step first (referred to as "Step 0) in carrying out subsequent goodwill accounting. Given that costs associated with any step of the impairment test are not observable, they had to use indirect measures to gauge the possible costs.

Measures such as firm sizes, number of reporting units, book-to-market ratio, and percentage of goodwill in total assets are used to gauge the possible costs in carrying out goodwill impairment tests. They documented that firms with a higher percentage of intangible assets, more reporting units, and therefore potentially higher expected costs in carrying out goodwill impairment test are more likely to take the qualitative assessment (Step 0).

Their study using indirect proxy for costs provides, to the most, indirect evidence of cost constraint influencing information providers' accounting choices. How this association between costs and accounting choices should be interpreted or be built into accounting standard-setting is still not clear.

Adame (2019) also studied firms' accounting choices when they have the option to use the two-step fair value impairment test or the step 0 qualitative assessment. However, Adame (2019) documented that smaller firms, firms with fewer reporting units, firms with fewer geographical segments are more likely to apply the qualitative assessment step. This finding is contradictory to that in Black et al. (2020). Those inconsistent findings highlight how difficult it is to gauge costs associated with a specific choice of accounting method or a specific piece of accounting information.

Chen et al. (2019) addressed the cost concern by analyzing the audit fees; they documented a positive association between disclosures of goodwill fair value measures and the audit fees. To what extent audit fees can be used as a proxy for the costs of goodwill impairment test is not clear. The Conceptual frameworks (both the IASB and the FASB) describe cost of accounting information as "the effort involved in collecting, processing, verifying and disseminating financial information"; the FASB 2019 ITC describes possible cost drivers under the current impairment-test model, including identifying reporting units and allocation of goodwill to reporting units.

Audit fees are not necessarily the direct cost for providing goodwill impairment information. Updates in goodwill-related accounting standards did mention the possibility of external resources, such as professional valuators, being needed to carry out impairment tests (ASU 2011-08). Costs associated with external resources will be part of the direct costs for impairment tests; however, currently there is no disclosure requirement for such costs. Chen et al. (2019) provides indirect evidence of the association between goodwill disclosures and audit fees.

Since costs associated with a specific piece of account information cannot be measured directly, how do standard-setters assess the costs before applying the cost constraint for specific accounting method choice? While a growing body of literature uses interviews to gather otherwise undisclosed information (Morley 2016, Durocher and Georgiou 2022), both the IASB and the FASB chose to issue discussion documents specifically addressing issues of subsequent goodwill accounting. Both documents addressed the cost concerns and ask the stakeholders directly about their perceptions of cost-benefit justification regarding the current impairment-test method.

3. THE TWO DISCUSSION DOCUMENTS AND THE RESEARCH QUESTION

3.1 FASB 2019 Invitation to Comment

On July 9, 2019, the FASB issued an Invitation to Comment (FASB 2019 ITC, thereafter) titled: *Identifiable Intangible Assets and Subsequent Accounting for Goodwill*, with the comment period ending on October 7, 2019. With up to 27 specific questions seeking feedback from market participants, this ITC is a comprehensive discussion document, highlighting most of the controversial issues regarding identifiable intangible assets and accounting goodwill. The 27 questions are grouped around four areas: 1) the very nature of accounting goodwill and the subsequent treatment of accounting goodwill; 2) the recognition of goodwill and other intangible assets upon business combination; 3) disclosure issues on goodwill and other intangible assets; and 4) intangible asset comparability issues. A summary of the questions raised in the FASB 2019 ITC is given in Appendix A.

Of the 27 questions, Question 2 is the most relevant to this study since it directly addresses the cost concern:

> Question 2, FASB 2019 ITC:
>
> "Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information? Please explain why or why not in the context of costs and benefits."

In the discussion leading to Question 2, the ITC addresses possible cost drivers under the current impairment model, including identifying reporting units, assigning goodwill to reporting units, and reallocating goodwill following a new acquisition. The ITC also acknowledges that many entities do not have the internal expertise to undertake the impairment test, and therefore, must hire external valuation specialists. One key assumption underlying this entire discussion document is that "…this ITC assumes that the cost of the present accounting model exceeds the benefit and that a change is warranted." Notice that the ITC does not ask about the cost drivers or actual costs, instead, the ITC describes potential cost drivers, insinuating that the Board has enough understanding of the costs. Also, the ITC does not ask about the benefits. The ITC is asking directly about the cost-benefit justification. Following the guidance given in the conceptual framework, this is the higher tier assessment, assuming costs and benefits each has already been assessed.

3.2 IASB 2020 Discussion Paper

In March 2020, the IASB also issued a discussion paper titled: *Business Combinations—Disclosures, Goodwill and Impairment*, (IASB 2020 DP, thereafter) to solicit comments on goodwill accounting. To some extent, the IASB 2020 DP is the mirror document to the FASB 2019 ITC, with overlapping concerns and issues addressed. However, the two documents have different approaches worth noticing.

First, unlike the FASB 2019 ITC which employs a question-and-answer approach seeking respondents' inputs, the IASB 2020 DP employs the yes/no question approach. For each question, the DP first presents the Board's preliminary views and then asks for a yes/no answer whether or not the respondent agrees with the Board's viewpoints. Secondly, unlike the FASB 2019 ITC which mentions the cost-benefit justification up front, the IASB 2020 DP mentions information usefulness up front. While the 2019 ITC describes the cost drivers of goodwill impairment tests leading to the specific question on cost constraint, the 2020 DP describes the nature of potential benefits to information users leading to specific questions. It seems, even though "cost-benefit justification" and "information usefulness" are of concern to both standard-setting entities, the priorities are not necessarily aligned. Similar to the 2019 ITC, however, the 2020 DP also asks for the higher tier assessment of the cost-benefit justification. Only when a respondent does not agree on the cost-benefit justification, the DP follows up with a sub-question asking for more detailed assessment of cost.

IASB 2020 DP has 14 questions, each with detailed sub-questions. Of all the questions, Question 6 directly addresses the cost-benefit regarding the current impairment test model. With the preliminary view from the Board that leads to the initial yes/no question and the follow-up open-end sub-question, Question 6 reads as follows.

> IASB 2020 DP, Question 6:
>
> "The Board investigated whether it is feasible to make the impairment test for cash-generating units containing goodwill significantly more effective at recognizing impairment losses on goodwill on a timely basis than the impairment test set out in IAS 36 *Impairment of Assets*. The Board's preliminary view is that this is not feasible.
>
> (a) Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost? Why or why not?
>
> (b) If you do not agree, how should the Board change the impairment test? How would those changes make the test signal significantly more efficient? What cost would be required to implement those changes?"

3.3 Research questions

This study focuses on the cost constraint addressed in the Conceptual Framework, specifically, this study examines how a conceptual constraint is operationalized in the standard-setting process that leads to accounting method choices. According to the Concept Statement itself, in applying such constraint, standard-setters "...assess whether the benefits of reporting particular information are likely to justify the costs incurred to provide and use that information". (IFRS Conceptual Framework, Paragraph 2.42, ASC Concepts Statement No. 8, Chapter 3, Paragraph QC39). The first research question concerns how such an assessment is reached. The premise is that a generally accepted perception of cost-benefit justification is reached and conveyed to the standard-setters. Given the misaligned cost-bearer versus benefit receiver in financial reporting, it is questionable if a generally accepted cost-benefit justification can be reached. If a generally accepted perception cannot be reached by stakeholders and conveyed to the standard-setters, then, inevitably, the standard-setters have to subjectively come up with their own assessment. An answer to this question reveals if the operationalization of a conceptual constraint is initiated from the stakeholders' or the standard-setters' viewpoint.

A second research question studies how perceptions of cost-benefit justification can lead to alternative accounting method choices. The premise is that the cost concern is driving the accounting method choice. If an association between the perception of cost-benefit justification and the accounting method choice can be established with stakeholders' feedback, then, implicitly, the stakeholders factor-in the cost constraint in their accounting method preferences. Without such an association, it is hard to argue that the cost constraint is influencing stakeholders' accounting method preferences. The standard-setters might focus on this constraint as the justification for their accounting method choice, but stakeholders might have other reasons for their accounting method preferences. If that is the case, it only highlights that the cost constraint is the standard-setters' subjective choice of reasoning for accounting method selection.

4. FEEDBACK FROM THE COMMENT LETTERS

4.1 FASB 2019 Invitation to Comment

By the end of October 2019, more than one hundred comment letters were received and posted on the FASB's website.[6] With several missing letters left out, altogether, there are exactly 100 comment letters posted as public records. Not all respondents addressed all 27 questions; as a matter of fact, only a limited number of respondents addressed all questions. Those comment letters revealed quite diversified viewpoints on cost-benefit justification for subsequent goodwill accounting.

This article summarizes and analyzes answers to key questions to inference the respondents' assessment of the cost-benefit justification.[7] Specifically, this article analyzes:

- Who responded to the ITC;
- What's their interpretation of cost-benefit justification under the current approach (answers to 2019 ITC Question 2); and
- The preference on the approach of subsequent goodwill accounting (answers to 2019 ITC Question 12). [8]

<u>Who responded to the ITC</u>

Table 1 gives a breakdown of the respondents by categories. Corporation/Accounting Information Providers are most concerned about the cost constraint since they are the entities carrying the costs; 40% of the comment letters come from this category. Some corporate respondents made it clear that they are accounting information providers as well as accounting information users when it comes to business acquisition and other operation and/or investment decisions. For those cases, this study still categorizes them as Corporation/Accounting Information Providers.

Academic/Policy researchers/Associations include industry and trade associations, CPA associations from different States in the US, and several foreign professional associations such as the Japanese Institute of CPAs. Entities in this category are concerned about the justification but generally do not assume a position as either the cost-carrier or the benefit-receiver.

Non-CPA Investment Consultants are the accounting information benefit-receivers; they gain information contents from the financial reporting to help their investment decisions and carry no costs in providing the accounting information. A unique group of respondents is the Valuation Professionals, they are the third-party specialists hired to carry out goodwill impairment tests. As described by ASU 2011-08, Paragraph BC11, reporting entities with fewer internal resources incur costs to hire external specialists to test for goodwill impairment. The valuation specialists' cost concerns are the opposite of the information providers; the reporting entities' costs are the valuation professionals' revenues.

Table 1: Breakdown of respondents by their professional positions

Corporation/Accounting Information Provider	40	40.00%
Academic/Policy Researcher/Associations	23	23.00%
Public Accountant	14	14.00%
Valuation Professional	12	12.00%
Non-CPA Investment Consultant	9	9.00%
Unidentified	2	2.00%
Total	100	100.00%

Cost-benefit justification under the current approach (answers to Question 2)

Question 2 on the FASB 2019 ITC is a clear yes/no question: "Do the benefits of the information provided by the current goodwill impairment model justify the cost of providing that information?" Out of the 100 comment letters, 76 attempted to answer this question; 26 "yes", 43 "no", 7 explicitly disclaimed an answer. Chart 1 gives a breakdown of the answers by the professional positions of the respondents.

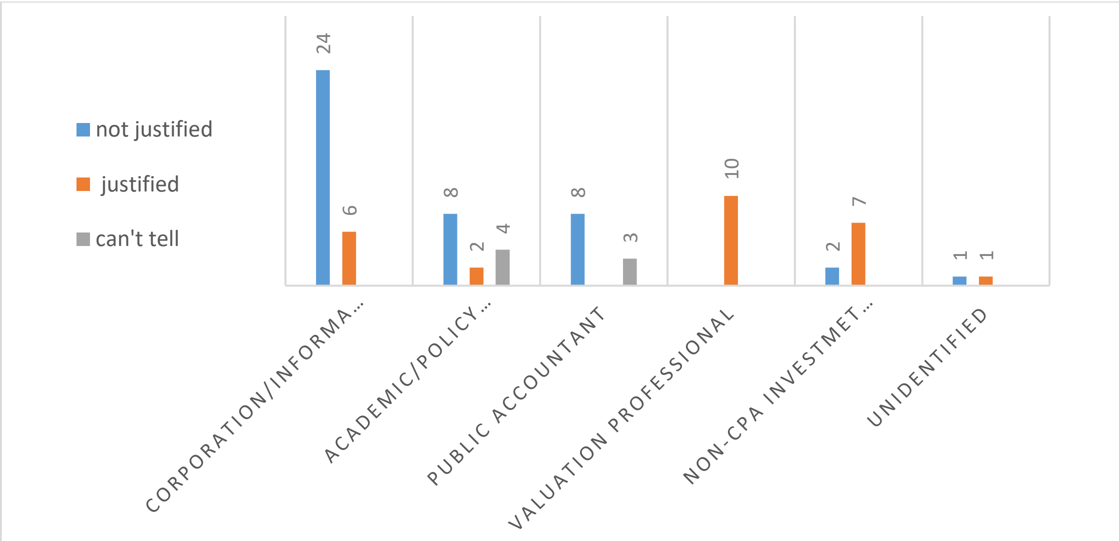

Chart 1: Perceptions of cost-benefit justification under the current impairment-test approach

Several very interesting points reflected in Chart 1:

- The yes/no answers are not evenly distributed among different categories of respondents. For Corporation/Accounting Information Providers, the answers are mostly "not justified" (24 out of 30); for Valuation Professionals, however, the answers are 10 out of 10 "justified". Considering that Corporation/Accounting Information Providers and Valuation Professionals are at the opposite spectrum of cost/revenue recognition, this skewed distribution casts a strong doubt if answers to this question can be independent of self-interests. While the question is phrased on costs weighing against benefits, for these two groups, cost concern alone is dominating. It is particularly true for Valuation Professionals who recognize revenues for carrying out impairment tests and otherwise have less use of accounting information for business decision-making.
- A more benefit-dominated perspective is provided by the Non-CPA Investment Consultant. Since Non-CPA Investment Consultants are pure accounting information users, costs incurred to provide goodwill-related information are not of their concern. For this group, the answers are mostly “justified” (7 out of 9). It is not clear how much of the cost concerns are factored into this answer.
- 4 out of the 7 "can’t tell" answers come from different State’s CPA Associations; the rest 3 come from Public Accountants. Several letters made it clear that answers almost evenly splitted among their members and they cannot reach a conclusion. In a sense, when the constituents of State CPA Associations split between information providers and users, this indecisiveness is not that surprising.

- The savviest and the most to-the-point answers to this question come from the CPA firms. Three out of the "Big Four" accounting firms (KPMG, Deloitte, and PWC) explicitly disclaimed an answer to this simple yes/no question. EY, Grant Thornton and BDO are some of the public accounting firms that skipped an answer to this question. It is particularly interesting that KPMG, Deloitte and PWC all explicitly mentioned the competing perspectives between information users' and information providers'. KPMG put it this way: "Whether an amortization model would be an improvement on a cost-benefit basis depends on feedback from both preparers and financial statement users."

Deloitte answered: "We are interested in financial statement preparers' and users' perspectives on this question." Those statements touch the core of the misaligned cost-carrier versus benefit-receiver issue embedded in the cost constraint. If feedback from the 2019 ITC helps the standard-setters to assess cost-benefit justification under the current impairment-test approach, the clearest answer is to highlight the competing perspectives between information providers and users, possibly further complicated with other third parties' self-interest concern.

Preference on the approach of subsequent goodwill accounting (answers to Question 12)

Given these competing perspectives, the follow-up question is how the perceptions of cost-benefit justification translate to accounting method choices. This study approaches this issue by analyzing respondents' answers to Question 12 in the 2019 ITC.

Question 12 of the FASB 2019 ITC asks the respondents whether they support any one of the three possible alternatives: an impairment-only model (current impairment-only model, or with modifications); an amortization model with an impairment test; and an amortization-only model. Out of 100 comment letters, 96 expressed their positions on the accounting alternatives, either explicitly as an answer to Question 12, or indirectly through their discussions. Some respondents support the impairment approach but strongly suggest modification to the current method. Chart 2 gives a breakdown of the answers by respondents' professional positions. For the impairment-only model, the options are either the current method, or a modified impairment model.

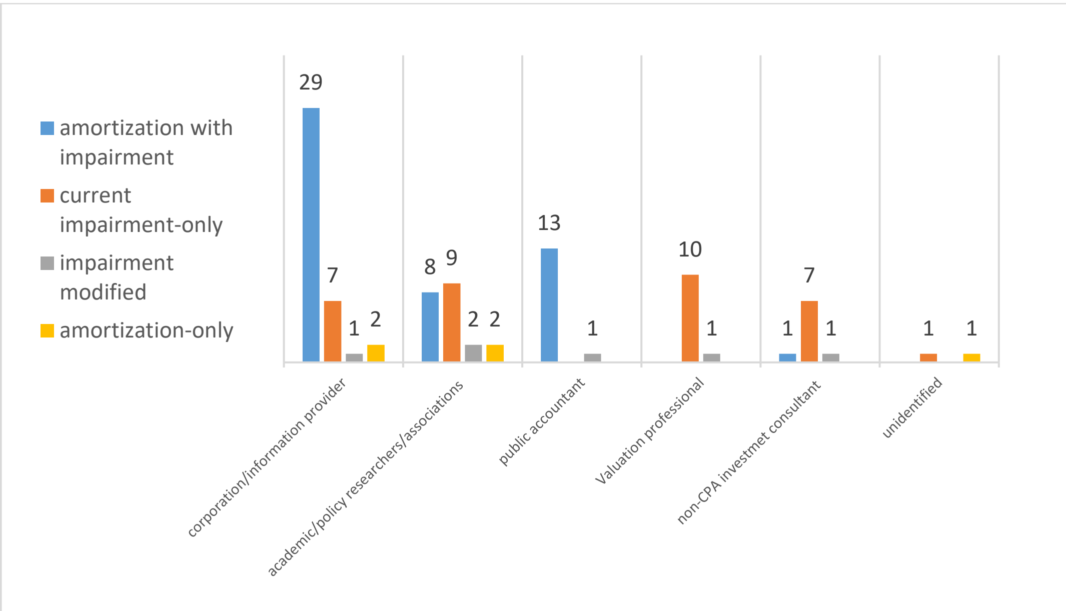

Chart 2: Distributions of preference for subsequent goodwill accounting methods by respondents' professional positions

The answers, again, are not evenly distributed. Instead, answers to this question highly depend on the respondents' professional positions. The most consistent answers come from the Valuation Professionals: no amortization.

A straight amortization model will wipe out the need for goodwill fair value assessment and therefore, largely reduces the business for valuation services. Again, one cannot help but wonder if the "no amortization" answer is properly driven by information usefulness concern or by self-interests. Investors/information users mostly support the current impairment method, since costs for providing the accounting information is of no concern to them.

On the other hand, information providers support the amortization method strongly, but combined with the impairment test. For academic and policy researchers, the split between impairment and amortization is almost 50-50. Another overwhelmingly consistent answer came from the public accountant firms, with 13 out of 14 preferring the amortization approach combined with impairment tests.

To assess to what extent the perception of cost-benefit justification is translated to the preference of accounting methods, Chart 3 presents the interaction between the yes/no/can't tell answers to Question 2 and the accounting approach preference, answers to Question 12.

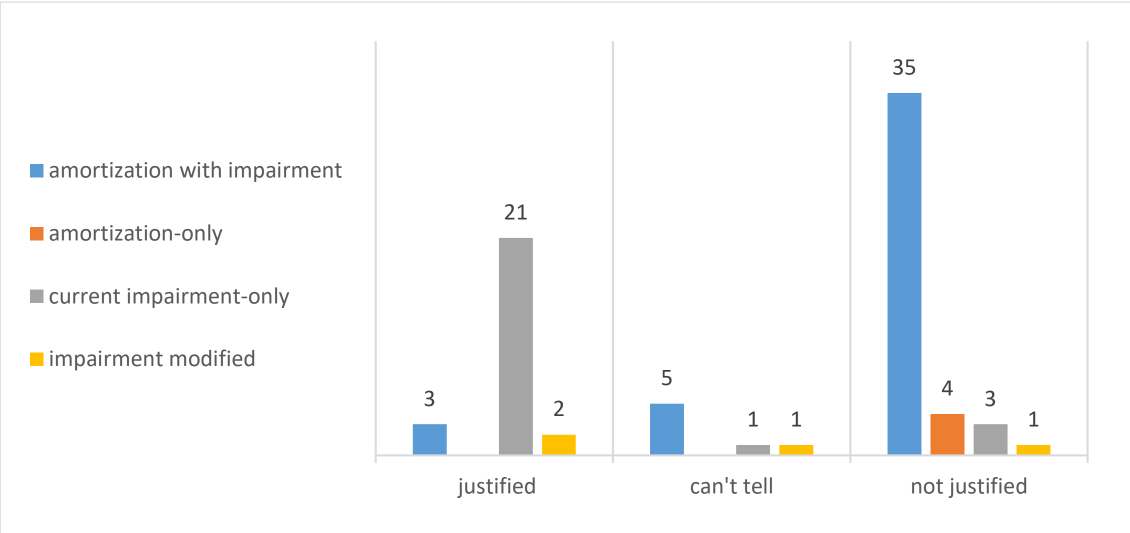

Chart 3: Distributions of preference for subsequent goodwill accounting methods by respondents' perceptions of cost-benefit justification

The distribution is quite uneven, indicating that the perception of cost-benefit justification is translated into the accounting method preference. To this extent, it is evident that from market participants' viewpoint, the cost concern is having impacts on the preference of accounting choices.

From the standard-setters' viewpoint, however, they have to weigh one party's costs against another party's benefits. Given the influence by the respondents' professional positions, it is questionable if the Board can receive unbiased feedback strictly based on cost-benefit justification of accounting information without complications of respondents' self-interests.

4.2 IASB 2020 Discussion Paper

The IASB 2020 DP also includes several questions on the cost concerns and on the preferences of subsequent goodwill accounting methods. By the comment period deadline, December 31, 2020, 193 comment letters were received and posted on the IASB's website[9]:

The DP structured each main question to be a yes/no question, with sub-questions to direct the respondents to express their viewpoints. However, the initial yes/no question can be structured into complicated sentences, as a result, the supposedly straightforward yes/no answers, sometimes can be difficult to interpret.

Who responded to the Discussion Paper

Table 2 gives a breakdown of respondents by their professional positions. When compared with respondents to FASB's 2019 ITC, the most noticeable difference is a group of national standard-setters from different countries; their inputs surely carry a heavier weight than that of an individual respondent.

Table 2: Breakdown of respondents by their professional positions

Professional Association/Non-standard-setting Government Entities	68	35.23%
Individual	50	25.91%
National Standard-Setters	22	11.40%
Corporation/Accounting Information Provider	21	10.88%
Academic/Policy Researcher	12	6.22%
Non-CPA Investment Consultant	9	4.66%
Public Accountant	8	4.15%
Valuation Professional	3	1.55%
Total	193	100%

The largest group of respondents is professional associations and non-standard-setting government entities. This group has the stakes in interpreting or following the accounting standards but they are not a direct cost-carrier or benefit-receiver.

Respondents in this group include CPA associations, banking associations, other national and international trade associations, and banking/auditing related government entities. They tend to give detailed reasonings, based on their professional background, to support their yes/no answers.

The next largest group is a group of individuals including more than 25 students. Some individuals did not disclose his/her professional background and the level of understanding in accounting standards. Some of the letters are merely a page in length, skipped most questions, and failed to give reasoning to support their answers.

This study respects every respondent's input; however, it is not justifiable to analyze less in-depth answers as if they carry the same weights as inputs from national standard-setters or other higher-level national or international associations. With due respect, this study excludes those 50 letters from the analysis.

Individual respondents who identified themselves as faculty members at universities are included in the Academic category and their inputs are included in this analysis. In total, this study analyzes 143 comment letters.

Up to 22 national-level standard-setters replied to the DP. Some of the countries currently hold the voting position in the IASB, such as Canada, China and Germany; their inputs surely carry a heavy weight in terms of the final accounting method choices. Similar to the respondents to the FASB 2019 ITC, some corporations and accounting information providers (cost bearer) and investment consultants (benefit receiver) also replied to the DP. Only three valuation professionals replied to the DP, including two professional appraisal/valuation practices and one individual who identified himself as a professional valuator.

<u>Cost-benefit justification under the current approach (answers to Question 6a)</u>

Question 6 in the IASB 2020 DP addresses the cost-benefit concerns regarding the current impairment-only model. From the wording, it seems the Board is more concerned about the benefits, and cost is a possible constraint. In the presentation of the Board's preliminary view: "The Board investigated whether it is feasible to make the impairment test…more effective..." "The Board's preliminary view is that this is not feasible."

Question 6a: "Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost?"

Question 6b: "If you do not agree, ...what cost would be required to implement changes?"

Given the presentation of the preliminary view and the complicated sentence structure in Question 6a, many respondents totally disregarded the cost constraint and simply formulated their answers on the feasibility of designing a more effective test.

Also, given a yes/no question asking about the feasibility of designing a more effective test, the implication on the accounting method choice is really not clear. 85 out of the 143 letters answered "yes" to Question 6a, only 22 answered "no"; 36 letters provide no answer to this question.

However, the reasonings leading to the "yes" answer, and the interpretation on the accounting method choices is inconsistent even contradictory (answers given in Question 7 are analyzed below), including the following:

- Yes, not feasible to design a more effective test (without addressing the cost constraint at all), so stay with the current best method.
- Yes, not feasible to design a more effective test at a reasonable cost, so stay with the current cost-benefit effective method.
- Yes, not feasible to design a more effective test (without addressing the cost constraint at all); since there is no room for improvement, abolish the impairment method and switch to amortization.
- Yes, not feasible to design a more effective test at a reasonable cost; given the cost-benefit ineffectiveness, abolish the impairment method and switch to amortization.

Only one letter addressed Question 6b: "what additional costs could be incurred to improve the current impairment test?" It seems, not all respondents interpreted Question 6 from the cost-benefit justification viewpoint.

Given this inconsistent interpretation of a "yes" answer, it is questionable if anybody reading those comment letters can reach a clear assessment of the respondents' perception of the cost effectiveness under the current impairment-only approach. If anything, the message seems to be: Stop trying to improve the current impairment method.

A breakdown of the answers to Question 6a by the respondents' professional positions is given in Chart 4. Across the professional positions, not many respondents gave a clear "no" answer. However, the "yes" answer is still difficult to interpret. This point is further highlighted when studied together with answers to Question 7a, addressed below.

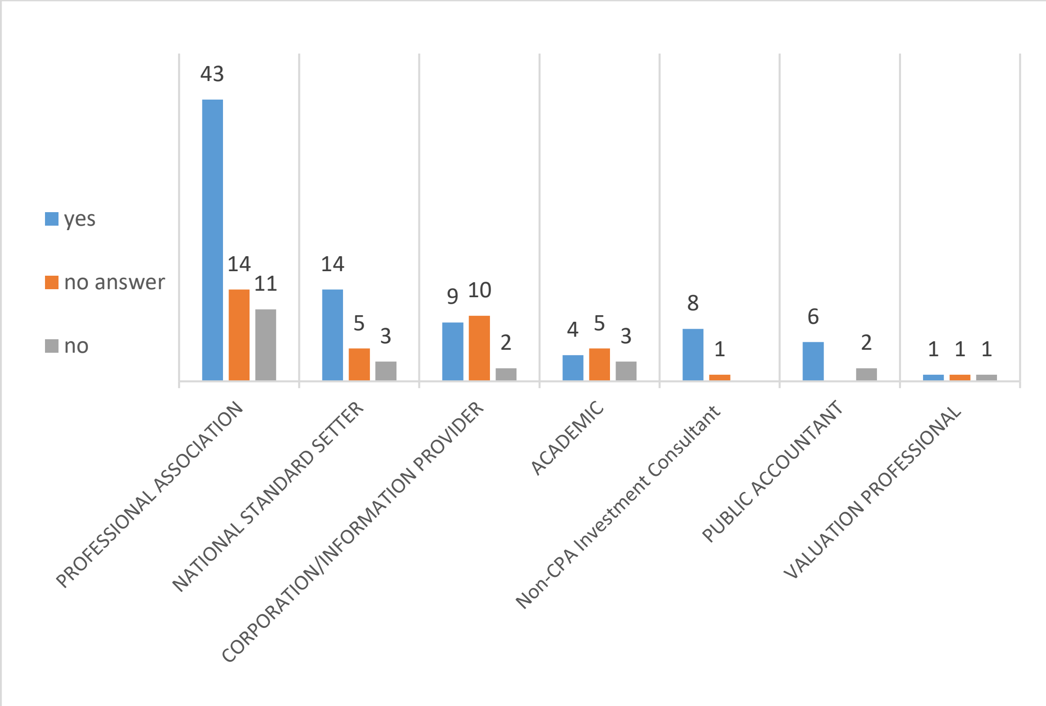

Chart 4: Distribution of answers to Question 6a by respondents' professional positions

<u>Preference on the approach of subsequent goodwill accounting (answers to Question 7a)</u>

Given the inconsistent interpretations of the “yes” answers to Question 6a, this study also analyzes answers to Question 7a to assess if the cost-benefit perceptions is translated to accounting method preference.

Structured, again, as a yes/no question, Question 7a reads as: “Do you agree that the Board should not reintroduce amortization of goodwill? Why or why not?” In the presentation of the Board’s preliminary view, the DP made it clear that “(the Board) should not reintroduce amortization of goodwill and instead should retain the impairment-only model for the subsequent accounting for goodwill.”

Unlike the FASB 2019 ITC which explicitly mentioned the possibility of a hybrid model, Question 7a simply asked whether to reintroduce amortization or not. Whether amortization should be reintroduced as the only method or as part of a hybrid method, that is not part of the question.

Strictly following the yes/no answer, only 34 out of the 143 respondents clearly agreed with the Board’s preliminary view not to reintroduce amortization and to stay with the current impairment-only approach. 99 out of 143 respondents expressed the preference to reintroduce some amortization, either as the only required method, or as a hybrid combination method, or can accept either method.

The breakdown of the preferred subsequent accounting method by respondents’ professional positions is given in Chart 5 and Chart 6. Chart 5 presents a strict yes/no/no answer analysis; Chart 6 further breaks down the reintroduction of amortization to “amortization only”, “hybrid approach” or “either method acceptable” as reflected in the discussions given in the comment letters.

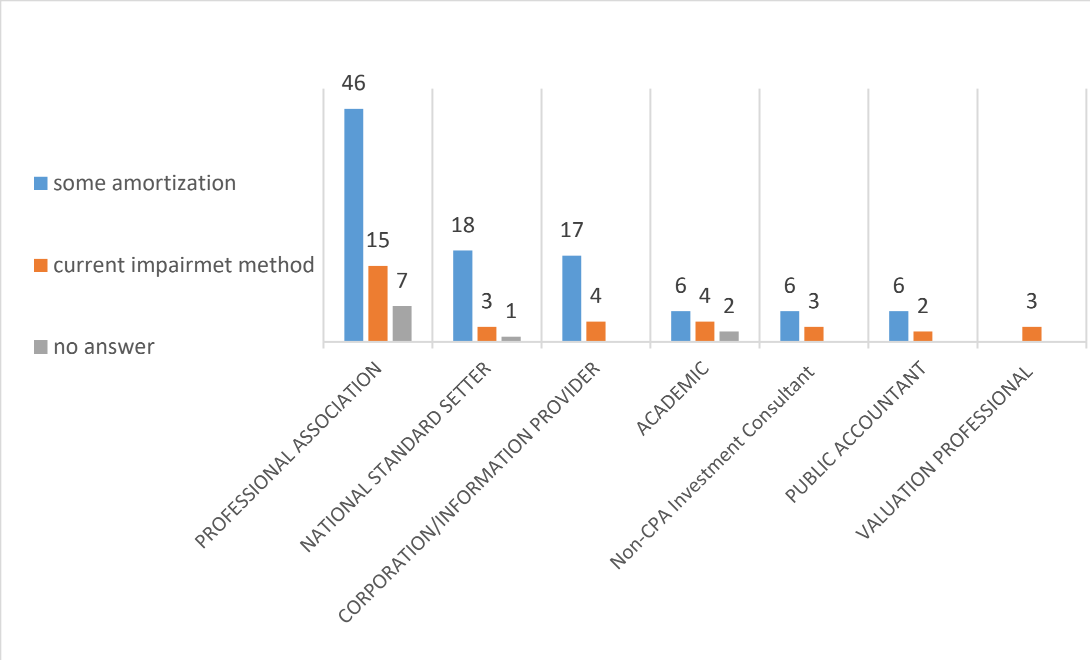

Chart 5: Distribution of answers to Question 7a: whether to reintroduce amortization, strict yes/no/no answer

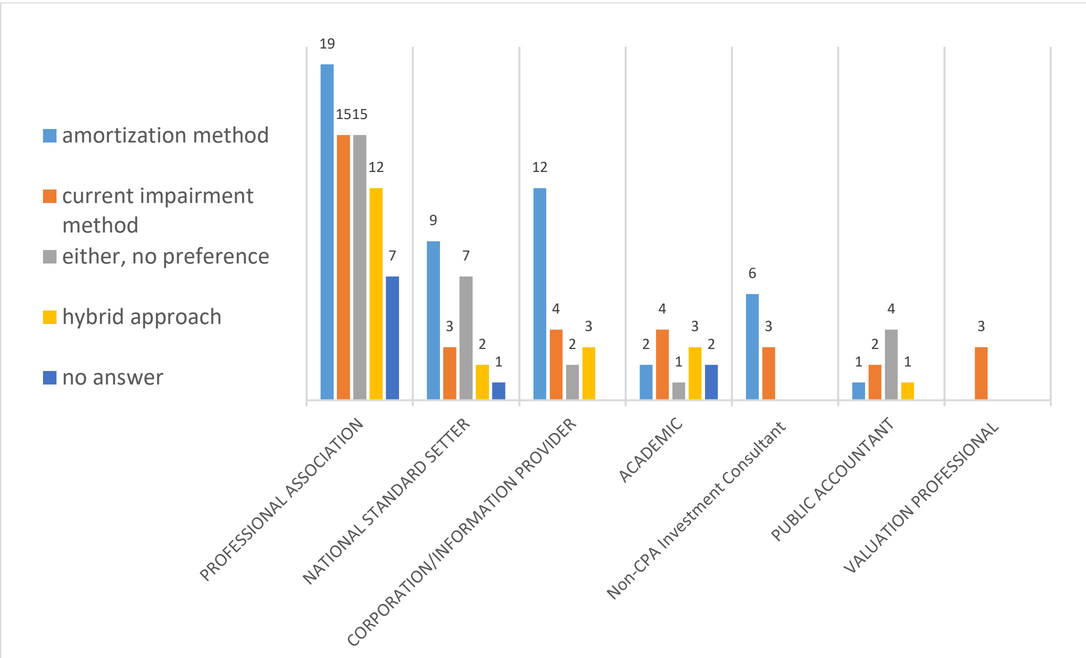

Chart 6: Distribution of answers to Question 7a: whether to reintroduce amortization, how to reintroduce amortization

To assess to what extent the perception of cost-benefit justification is translated to the preference of accounting methods, similar to the analysis of the comment letters to the FASB 2019 ITC, this study also applies this analysis to the IASB 2020 DP. In this case, answers to Question 6a are studied against answers to Question 7a, the preference of subsequent goodwill accounting methods. Chart 7 gives the breakdown of the preferred accounting method, grouped by the respondents' perceptions of the cost-effectiveness of the current impairment-only model.

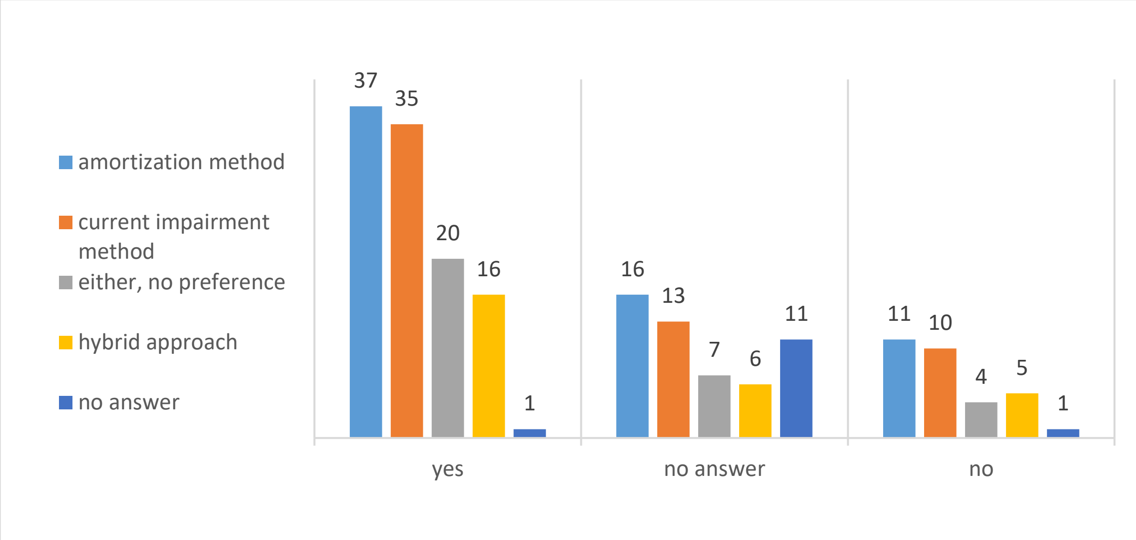

Chart 7: Distribution of answers to Question 7a: whether to reintroduce amortization, by the respondent's perception of cost-effectiveness under the current impairment-only model

The preference distributions presented in Chart 7 do not show any clear pattern. Whether a respondent agrees that the current impairment-test model is the most cost-effective or not, his/her preference of the subsequent goodwill accounting method can be either impairment-only or amortization-only or a hybrid.

This presentation reinforces the mixed interpretation of the "yes" answers to Question 6a, addressed above. In this case, we don't see the association between the perceptions of cost-effectiveness and the accounting method preference. There is a possibility that this lack of association is simply the outcome of the inconsistent interpretations of answers to Question 6a.

Overall, feedback from the comment letters, given the unique yes/no questions and the complicated sentence structures of those questions, is difficult to interpret. If the IASB is counting on the feedback to assess market participants' perceptions of the cost-effectiveness of the impairment-only model, it is questionable if a reasonable assessment can be reached.

Focus on national-level standard-setters

A unique group of respondents to the 2020 DP is the national-level standard-setting entities from different countries. Up to 22 standard-setting entities replied to this DP. Table 3 reports the 22 standard-setters' answers to Question 6a and 7a.

While 15 out of the 22 standard-setters agreed that it is not feasible to further improve the current impairment-only model at a reasonable cost, their positions towards the reintroduction of amortization are not consistent. Before we jump to the conclusion that cost constraint is not translated to the choice of accounting methods, from reading their reasoning leading to answers to Question 6a, we can see their interpretation to Question 6a is quite inconsistent.

Without a consistent perception of cost-effectiveness for the current impairment-only model, we really cannot reach the conclusion whether the cost constraint has been applied before they express their opinion on the subsequent goodwill accounting method. The following paragraphs from the comment letters help to illustrate the point:

Mexican Financial Reporting Standards Board:

> "(the majority) believe that it is not possible to make an impairment test for cash generating units containing goodwill significantly more effective…. we do not foresee how to improve the present impairment test, which is very complex and judgmental."

So, their answer to Question 6a is "agree", without addressing the cost concern. And the interpretation is: since there is no room for improvement, move to amortization.

China, Accounting Regulatory Department, Ministry of Finance:

> "We agree with the Board's view…… The Board should not reintroduce amortization of goodwill.… There is feedback from stakeholders that reintroducing amortization of goodwill will have a greater impact on company's financial position, capital markets and economic development. Therefore, in the absence of absolute evidence to support the reintroduction of amortization, we currently support retaining the existing impairment only model."

Their answer to Question 6a is also "agree", without addressing the cost concern. But their position on reintroducing amortization is totally different.

Japan, Accounting Standards Board:

> "We agree that it is not feasible to design an impairment test that is significantly more effective…. We disagree with the preliminary view that the amortization of goodwill should not be reintroduced… the IASB has attempted to improve the effectiveness of impairment tests but it turned ought to be difficult to achieve the improvement at a reasonable cost."

Their answer to Question 6a is also "agree" but with the cost concern; given the cost concerns, move to amortization.

New Zealand Accounting Standards Board:

> "We think it is not feasible to design an impairment test that is significantly more effective…. We are aware that both the impairment-only model and the amortization model have advantages and disadvantages. Our views on this topic are also mixed."

Their answer to Question 6a is also "agree", with cost concern; but reached a mixed view on the alternative subsequent accounting methods.

Feedback to the IASB's 2020 DP presents an unusual collection of 22 standard-setting entities' positions on subsequent goodwill accounting. It seems the only clear message is that there is no consensus on the subsequent goodwill accounting method. Unlike the feedback to the FASB's 2019 ITC which comes mostly from domestic respondents with either cost-bearing or benefit-receiving positions, feedback to the IASB's 2020 DP reveals the collective viewpoint of well-informed capital market policy-makers. When the constituents of each responding entity include both the cost-bearing information providers and the benefit-receiving information users, the competing perspective issue surfaced and blocked a simple agree/disagree answer. Several standard-setting entities choose not to answer the cost-effectiveness question and are ambivalent on whether to reintroduce goodwill amortization; others give an agree/disagree answer but also present the arguments on the other side. The core of this indecisiveness is the competing perspectives.

Table 3: Standard-setters' positions on cost-effectiveness and reintroduction of amortization

IASB 2020 Discussion Paper:
Question 6a: Do you agree that it is not feasible to design an impairment test that is significantly more effective at the timely recognition of impairment losses on goodwill at a reasonable cost?
Question 7a: Do you agree that the Board should not reintroduce amortization of goodwill?

Respondent	Answer to 6a	Answer to 7a	Notes
Asian-Oceanian Standard-Setters Group	No answer	Ambivalent*	
Australian Accounting Standards Board	No answer	Ambivalent	
Austrian Financial Reporting and Auditing Committee	No answer	Disagree	
Botswana Accountancy Oversight Authority	Disagree	Disagree	
Brazilian Committee for Accounting Pronouncements	Agree	Disagree	
Canada, Accounting Standards Board	Agree	No Answer	Convergence with US FASB
China, Accounting Regulatory Department, Ministry of Finance	Agree	Agree	
Dutch Accounting Standards Board	Agree	Disagree	
French Accounting Standards Authority	no answer	Agree	
Germany, Accounting Standards Committee	Agree	Disagree	
Israel Accounting Standards Board	Agree	Disagree	
Italian Standard Board	Agree	Disagree	
Japan, Accounting Standards Board	Agree	Disagree	
Korea Accounting Standards Board	no answer	No Answer	Discussion against Amortization
Latin American Accounting Standard-setters Group	Agree	Disagree	
Malaysian Accounting Standards Board	Agree	Ambivalent	
Mexican Financial Reporting Standards Board	Agree	Disagree	
New Zealand Accounting Standards Board	Agree	Ambivalent	
Nigeria, Financial Reporting Council	Disagree	Agree	
Norwegian Accounting Standards Board	Agree	Ambivalent	
Singapore, Accounting Standards Council	Agree	Ambivalent	
Swedish Financial Reporting Board	Agree	Disagree	

* The Ambivalent answer is an explicit disclaim to give a yes/no answer. The ambivalent respondents give discussions of both the pros and the cons of amortization versus impairment and explicitly express an ambivalent answer.

5. DISCUSSION

Comment letter feedback to the two discussion documents shows a serious lack of consensus on the cost-benefit justification; this lack of consensus is reflected by the domestic respondents as well as the global, national-level respondents. Feedback also fails to show an association between the cost-benefit justification perceptions and the accounting method preferences. For IASB 2020 DP, given the yes/no type of questions with complicated sentence structure, a simple yes/no answer can be interpreted in multiple ways. Overall, if standard-setters are counting on the feedback to indicate a preferred accounting method, approaching from the cost-benefit justification viewpoint, the feedback is not that helpful at all.

Feedback to the discussion documents indicates that perceptions of the cost-benefit justification depend heavily on the respondents' professional positions. This finding reflects the competing perspectives among professional groups impacted by accounting standards. Cost as a constraint on financial reporting has an inherent, fundamental difficulty: the misaligned costs-bearer versus benefit-receiver. In the comment letters, major accounting firms such as KPMG and Deloitte clearly point out the competing perspectives between financial statement preparers and users. To this extent, should the cost-benefit justification even be a constraint established in the conceptual framework? The cost-constraint is not established in the conceptual framework concerning a specific group's interests. The cost-constraint concerns all stakeholders. When cost-benefit justification has to incorporate all stakeholders, the standard-setting process inevitably becomes political.

The understanding that the accounting standard-setting process is political is no novelty (Miller 1985, Wyatt 1990). Even when the conceptual framework tries to limit the impact groups to just investors and lenders, simply between financial statement preparers and users, there is no consensus. To reach a final accounting method choice, subjectivity has to be exercised by the standard-setters. Similar to any other regulatory actions, subjectivity calls for legitimation (Bamber and McMeeking 2016, Stenka 2022). The conceptual framework serves as such a political document (Miller 1985) to provide justifications for the standard-setters' final accounting method choices. Concept Statements given in the framework cover different concepts and qualitative characteristics that standard-setters are seeking in accounting information; cost-benefit justification is but one of the concepts (Smith 1996, Nobes and Stadler 2015). Some researchers criticize that the framework only reflects the standard-setters' visualization of what ideal accounting information should be and has lost touch with the final information users (Stenka 2022, Durocher & Georgiou 2022). From a political operation viewpoint, however, concepts and qualitative characteristics established in the framework provide the much-needed legitimation in any regulatory actions.

How to measure and to test for any discrepancy between the standard-setters' visualization and the final information users' perceptions of information quality is a challenging task since information users' perceptions are usually not revealed (Durocher & Fortin 2010, Durocher et al. 2019, Cascino et al. 2021, Durocher & Georgiou 2022). Feedback to the IASB's and the FASB's discussion documents provides a unique opportunity to gauge such discrepancy. This study documents the lack of consensus on the cost-benefit justification perceptions and on the final accounting method choice. Does that mean the two discussion documents are simply fruitless efforts in the due process carried out by the standard-setters? Absolutely not. An important consensus documented here is that there is no consensus on the accounting method choice. Given this lack of consensus, it is much more justifiable that the standard-setters exercise subjectivity to reach the final accounting method choice.

The cost-constraint is chosen by the standard-setters to be the justification for their final account method choice. However, feedback to the discussion documents fails to show the association between cost-benefit justification perceptions and accounting method choice. Feedback from the comment letters gives other reasons for a respondent's goodwill accounting preference, including convergency between the IASB and the FASB statements, accounting policy consistency over time, and simplicity of implementation. Does that mean the cost-constraint will be dropped as a reasoning to support the standard-setters' final accounting method choice? That remains to be seen. Eventually, the final accounting method choice is the standard-setters' subjective choice, and the reasoning to justify their final choice is yet another subjective choice. In FASB's 2019 ITC, it is made clear that the driving concern behind the discussion is the cost-constraint. In the case of subsequent goodwill accounting, the selected justification for the final accounting method choice is the cost-constraint.

6. CONCLUSION

In accounting literature, how concepts and qualitative characteristics established in the conceptual framework are operationalized in the standard-setting process has not been adequately addressed. Particularly, there is a shortage of analyses with empirical data. This study fills-in this shortage by studying one concept established in the conceptual framework: the cost constraint. Feedback to the IASB's and the FASB's discussion documents on goodwill accounting provides a unique opportunity to gauge the perceptions of the cost-benefit justification that may lead to accounting method preferences. Analyses of the common letters indicate that there is no consensus on the cost-benefit justification perceptions and that such perceptions are not associated with respondents' accounting method preferences.

While feedback to the discussion documents fail to indicate a preference for an accounting method, if approached from the viewpoint that accounting standard-setting is a political process, the discussion documents and the feedback serve as part of the due process. The documented lack-of-consensus provides legitimation (Bamber and McMeeking 2016) to the standard-setters' final accounting method choice. To that extent, as pointed out by Miller (1985) and Wyatt (1990), the conceptual framework is better understood as a political document. Concepts and qualitative characteristics established in the framework are not prescriptions of future practices, instead, they are potential justification that can be operationalized to provide legitimacy to the final accounting method choice.

In the comment letter to the FASB 2019 ITC, Deloitte chose not to answer the cost-benefit justification question directly, instead, it answered with the following statements:

"We believe that additional input from users and preparers about the costs and benefits of the impairment-only model relative to an amortization model will be useful in the evaluation of those approaches. However, the final model the Board selects should be aligned to, and consistent with, the conceptual basis it chooses."

Deloitte's statement points out that accounting method choice is the standard setter's subjective call, however, the subjective call must be justified with some conceptual basis. In the case of goodwill accounting, "cost-constraint" is the conceptual basis of choice.

Data Availability: Data is available from the public sources.

Funding source: None

Footnotes

1) The languages addressing "The cost constraint on useful financial reporting" in the Conceptual Framework of the two sets of standards are word-for-word identical, as the result of the convergency efforts from both the IASB and the FASB.

2) 2 Issued in September 2011, ASU No. 2011-08: Intangibles--Goodwill and Other (Topic 350)

3) Testing Goodwill for Impairment, allowed the option of a qualitative assessment to determine whether it is necessary to perform the two-step goodwill impairment test.

4) Issued in January 2014, ASU No. 2014-02: Intangibles--Goodwill and Other (Topic 350) Accounting for Goodwill a consensus of the Private Company Council, allowed private entities the option to amortize goodwill on a straight-line basis over 10 years or less.

5) ASU No. 2014-18: Business Combinations (Topic 805) Accounting for Identifiable Intangible Assets in a Business Combination; ASU No. 2017-04: Intangibles—Goodwill and Other (Topic 350) Simplifying the Test for Goodwill Impairment; ASU No. 2019-06: Intangibles—Goodwill and Other (Topic 350), Business Combinations (Topic 805), and Not-for-Profit Entities (Topic 958).

6) Wyatt (1990) is a single-authored article by Arthur. L. Wyatt who was the FASB Board member from 1985-1987. While his personal opinion might not represent the Board's collective opinion, it is clear that at least some Board member understood the standard-setting process as political.

7) https://www.fasb.org/jsp/FASB/CommentLetter_C/CommentLetterPage&cid=1218220137090&project_id=2019-720

8) Analyses in this study are carried out with simple visual presentation instead of with statistics, because of the limited sample size. Analyses of the feedbacks to the IASB 2020 discussion paper and to the FASB 2019 ITC are carried out separately. Since the two discussion documents each has its unique way to construct the questions and the questions are not totally aligned, to combine the feedbacks from the two sets of comment letters will be misleading.

9) For further analysis of feedbacks to the July 2019 ITC, staff members of the FASB summarized answers/discussions to all 27 questions into a 74-page document, available at https://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176174337006.

10) https://www.ifrs.org/projects/work-plan/goodwill-and-impairment/dp-goodwill-and-impairment/#view-the-comment-letters

11) The DP was issued in March 2020 with the original comment period deadline set on September 15, 2020. Due to the COVID-19 pandemic, the comment deadline was extended to December 31, 2020.

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Appendix A: A Summary of Questions Raised in FASB's July 2019 ITC