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The Ideological Homogenization of the FASB

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Abstract

The Ideological Homogenization of the FASB

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When the Financial Accounting Standards Board's (FASB) conceptual framework (CF) was initially developed, contemporaneous observers believed the CF incorporated conflicting elements and that it only slightly favored the asset-and-liability (A&L) view of accounting. Now, however, the FASB has made it clear that the CF endorses the A&L view. It is likely that a number of factors, operating together, have contributed to the movement to the A&L view over this time. I contribute to the literature by exploring a novel explanation in path dependence. Specifically, I consider whether the completion of the primary stage of the CF in 1985 stimulated U.S. accounting standard-setting institutions along a path dependent process, driven by reinforcement around early interpretations of the framework.

I develop and test hypotheses based on this path dependence theory. I empirically demonstrate that, relative to members selected in the pre-CF period, members selected in the post-CF period take voting positions that are (i) less like their constituent sponsoring organizations and (ii) more like one another; and that these shifts are related to standards favoring the A&L view. Using an analysis of comment letters I find that, relative to a control group, FASB members selected in the post-CF period express a stronger *ex ante* preference for A&L standards. This pattern of evidence makes it appear "as if," in the post-CF period, the Financial Accounting Foundation systematically selects FASB members whose views are in-line with the A&L view. Finally, I demonstrate a significant reduction in voting dissent among post-CF members but an increase in members dissenting because standards do not *go far enough* to advance the A&L view. This suggests that the FASB has become ideologically homogeneous with respect to the A&L view of accounting. I conclude the paper by further exploring the setting and briefly discussing some consequences of these changes for standard-setting.

The empirical results presented in this study are consistent with path dependence. However, since the data are also consistent with alternative explanations that I cannot reject, further work will be necessary to confirm whether path dependence has had a meaningful impact on U.S. standard-setting institutions in the post-CF period.

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I. INTRODUCTION

In this study, I investigate long-term consequences of the Financial Accounting Standards Board's ("FASB" or "the Board") conceptual framework ("CF" or "the framework") by focusing on two research questions. First, I ask whether the Financial Accounting Foundation's (FAF) process of selecting FASB members changed around the framework. Second, I consider whether the FASB has become ideologically homogeneous in the post-CF period.¹ When the FASB was created in 1973, its initial agenda included a project to develop a conceptual framework (FASB 1973a) in order to establish 'objectives and concepts' for the Board to use in developing standards (FASB 1978). Where its predecessor organizations handled each accounting issue on a standalone basis (Gellein 1986), sometimes leading to internally inconsistent standards (Chatov 1975), the CF was intended to guide the FASB's rule-making and provide more internally consistent standards (FASB 1976).

In its initial public discussion of the CF project, the FASB noted the number one issue was whether to adopt the asset-and-liability ("A&L") or the revenue-and-expense ("R&E") view of accounting (FASB 1976).² I review contemporaneous responses and demonstrate that the FASB's observers believed the framework slightly favored the A&L view because it also incorporated elements of the R&E view. However, in recent years

¹ The conceptual framework was developed via the issuance of Statements of Financial Accounting Concepts ("SFACs" or "concepts statements"). Per contemporary writings (e.g. Solomons (1986), Agrawal (1987), and Gerboth (1987)), the prevailing belief was that the CF was complete with the issuance of SFAC 6 in December 1985. Indeed, once SFAC 6 was issued all elements of the CF that were on the FASB's initial agenda had been completed (Storey and Storey 1998). As such, I use the issuance of SFAC 6 to delineate the "pre-CF period" from the "post-CF period" (I discuss this decision further in Section 5.5). As its primary purpose was to replace SFAC 3 to make it applicable to not-for-profit entities (FASB 1985), SFAC 6 provided minimal innovative guidance (Miller et al. 1994).

² The A&L view (R&E view) is often labeled the balance sheet method (income statement method). I follow recent FASB literature in utilizing the former terminologies. Refer to Appendix 1 for a brief comparison of these views.

the FASB has stated there is “no doubt” that the framework endorses the A&L view (Storey and Storey 1998, 78). It is well-recognized that standards in recent years (i.e., during the post-CF period) have proliferated the use of fair values as part of a larger trend towards the A&L view (e.g. Dichev (2008)). As such, the divergence between contemporaneous views of the framework and the FASB’s current position is likely related to the trend towards fair value accounting.

There are a number of extant explanations for this change. For example, Healy and Wahlen (1999) attribute the change to the regulatory response to the savings and loan crisis in the late 1980s. Given the nature and scope of the change, it is likely that a number of factors, operating together, have contributed to the growth of fair value accounting. I contribute to the literature by exploring a novel explanation for the growth in fair value accounting: FASB reinforcement around the conceptual framework.

I consider whether the completion of the primary stage of the CF (i.e., the issuance of SFAC 6) stimulated U.S. accounting standard-setting institutions along a path dependent process. A path dependent process is one in which, through institutional self-reinforcement, the consequence of small events can determine solutions that lead toward a particular path (North 1990). Specifically, I consider the following: as the FASB began interpreting the framework, consensus began to arise around the proper interpretations, and once a position on the ‘A&L-versus-R&E’ dimension was “locked-in,” that position was reinforced and a path was created in that direction. I develop two research questions by considering what types of outcomes would be observed under this theory, and I develop testable hypotheses from those questions.

Historically, the relationship between the FASB and its constituents has been as follows: each constituent group is represented by sponsoring organizations (for example, auditors are represented by the AICPA); these organizations elect Trustees of the FAF; and the FAF Trustees elect FASB members. I conduct my primary analysis on votes made by FASB members on Statements of Financial Accounting Standards (SFASs), which I match to positions taken by sponsoring organizations in comment letters to Exposure Drafts relating to those SFASs.³ In total, I match 762 FASB votes on 152 Statements (from SFAS 1 through SFAS 160) to sponsoring organization positions. I note that the A&L view favors the use of fair values and standards that increase accounting relevance, and I utilize Allen and Ramanna (2013) measures of these constructs to identify standards favoring the A&L view.

With my first research question I ask whether the FAF's process of selecting FASB members changed around the framework. Since path dependence is driven by self-reinforcement among a set of interdependent institutions, one would expect to see its effect extend beyond the FASB. If the FASB reinforced around the A&L language in the framework, then the FAF may have continued movement down that path by selecting FASB members who prefer the A&L view. I derive three hypotheses from this research question and provide empirical evidence in support of each. First, using a difference-in-differences design I demonstrate that relative to members selected before the CF, members selected after the CF vote (i) less like their constituent sponsoring organizations and (ii) more like one another. These shifts are consistent with FASB member selection in the post-CF period being systematic. Through robustness tests, I rule out the

³ I match FASB votes to the position of sponsoring organizations due to these organizations' prescribed role in the standard-setting process. The historical relationship between these entities is illustrated in Appendix 2.

possibility that these results are driven by a socialization process taking place after Board members are appointed. Second, using regression analysis I demonstrate that both of these shifts are related to standards favoring the A&L view, which is consistent with member selection in the post-CF period centering on preference for the A&L view.

For my third hypothesis, I identify the signatories to sponsoring organization comment letters; of this group, ten went on to become FASB members. I use regression analysis to demonstrate that, within this population, FASB members selected before (after) the CF take positions in comment letters that are less favorable (more favorable) to the FASB's proposed standard than their non-selected peers. Further, I find that post-CF members express a stronger *ex ante* preference for standards favoring the A&L view. The pattern of evidence supporting these three hypotheses makes it appear "as if," in the post-CF period, the FAF systematically selects members whose views are in-line with the A&L view.

With my second research question, I ask whether the FASB has become ideologically homogeneous. I first demonstrate a significant reduction in voting dissent among members selected after the CF, and I note a post-CF increase in standards favoring the A&L view. I then read and code FASB members' dissenting explanations on each SFAS. I predict an increase in dissent arising from more extreme elements within an ideology ("inside dissent"), consistent with ideological homogenization (as opposed to dissent arising from the opposite end of the ideological continuum, which I term "outside dissent"). I demonstrate that, despite the reduced level of dissent in the post-CF period, there is an increase in members dissenting because the standards do not *go far enough* to advance the A&L view. Indeed, in recent years FASB members rarely

demonstrate opposition to the A&L view: across 22 fair value Statements from SFAS 125 to SFAS 160, encompassing 149 votes in total, there is only one dissent that does not explicitly call for even greater use of fair values. While accounting methods are multidimensional (Joyce et al. 1982), it appears the FASB has become ideologically homogeneous on the ‘A&L-versus-R&E’ dimension.

The evidence from my first research question is consistent with the FAF systematically selecting FASB members who are not representative of their sponsoring organization(s). This raises the question: given the indirect authority of the sponsoring organizations to select FASB members, why do they allow this situation to persist? Given the observed pattern, there must be one or more institutional barriers which prevent the sponsoring organizations from intervening. The path dependence theory predicts that such barriers arise from the process of institutional self-reinforcement, which strengthens the institutions’ stability and makes it difficult to move off the established path (Pierson 2000a). Kothari et al. (2010, 36) ask “[w]hat institutional features of standard setting might help reduce the effect of ideology and politics on standard setting?” In contrast, I consider whether the process of self-reinforcement around the conceptual framework has served to embed the effect of ideology in standard setting, resulting in a Board that is ideologically homogeneous on the number one issue in accounting.

In the current literature, numerous studies empirically test the link between lobbying on proposed accounting standards and changes subsequently made to those standards, both in the U.S. (e.g. Puro (1984), Brown and Feroz (1992), Buckmaster et al. (1994), Ramanna (2008)) and abroad (e.g. McLeay et al. (2000), Hansen (2011)). Allen

and Ramanna (2013) evaluate the role of individual standard setters on the nature of standards produced by the FASB. They find that FASB members with financial services backgrounds are more likely to propose standards that increase accounting relevance. Dichev et al. (2013, 3) survey CFOs and note “there is a dissonance” between the views of standard setters and financial statement preparers. In contrast to these and other extant studies, I consider a theory of institutional change, and, in doing so, I highlight the importance of institutional factors in the standard-setting process. Further, as I am not aware of any studies that empirically link actions taken by the FAF to standard-setting outcomes, I seek to provide initial empirical evidence on the impact of the FAF on standard-setting.

I acknowledge two important caveats to my study. First, while I present evidence consistent with a change in the selection of FASB members, the FAF is a private body and I have no visibility into their selection process. As such, it is possible that proponents of the R&E view are asked to serve on the Board but decline the selection, for example because they would rather not serve in a minority position. Further, while I focus on FAF selection I do not intend to overstate the extent to which the FAF influenced the movement towards the A&L view. Ultimately, the relative power of the FAF, the FASB, and external political forces to influence standard-setting outcomes is a subject that remains open for empirical discovery.

Second, while the empirical results I present confirm my hypotheses and are consistent with the path dependence theory, I do not empirically distinguish path dependence from some alternate explanations for the rise in fair value accounting. As noted, Healy and Wahlen (1999) link the rise in fair values to the S&L crisis in the late

1980's. The regulatory response to this crisis may have led to the addition of FASB members with financial services backgrounds, and Ramanna (2013) attributes the rise of fair values to the inclusion of these financial services members (which started in 1993). This explanation could also be consistent with my full set of empirical findings: the post-CF trend towards fair values could reflect demand from the empowered financial services industry (for whom fair value measures are arguably more reliable), while the external threat to the FASB could lead to greater internal consensus (Newman 1981) and provide political incentives for the FAF to select FASB members who represent something other than their sponsoring organizations.⁴

In this study, I develop and explore a novel explanation for the FASB's movement towards the asset-and-liability view of accounting: path dependence driven by institutional self-reinforcement in the post-CF period. I hand-collect a unique data set, gathered from seldom-used documents, and perform empirical tests on hypotheses derived from the path dependence theory. The empirical results are consistent with path dependence. However, since the data are also consistent with alternative explanations that I cannot reject, further work will be necessary to confirm whether path dependence has had a meaningful impact on U.S. standard-setting institutions in the post-CF period.

The paper proceeds as follows. Section 2 provides some background on the conceptual framework and develops the path dependence theory. Section 3 develops this study's hypotheses, while Section 4 presents the empirical design of the hypothesis tests.

⁴ Many explanations for the rise of fair value accounting cannot simultaneously explain the divergence between the FASB and its sponsoring organizations, in which it appears institutional barriers prevent the organizations from intervening. In addition to barriers that arise through institutional self-reinforcement, I have identified two broad alternate explanations for how such barriers can arise: (1) an external threat, as above, in which the FAF answers to a body other than its sponsoring organizations; or (2) a shock that creates a systematic shift in the incentives of FASB members, such that they are incentivized to vote in-line with (in opposition to) their sponsoring organization in the pre-CF (post-CF) period.

Section 5 provides the results of hypothesis testing, while Section 6 provides a brief discussion and then concludes.

II. BACKGROUND AND THEORY DEVELOPMENT

2.1 Background of Conceptual Framework

In this section, I seek to demonstrate two aspects of the development of the CF: (i) that the shift towards the A&L view centered around the definitions of elements stated in SFAC 3, and (ii) that, at the time, observers of the FASB viewed these definitions as a small change from the status quo (e.g. Dopuch and Sunder (1980, 5)).⁵ In the following section, I propose a mechanism by which such a seemingly small change can provide a large impact on standard-setting.

In recent years, the FASB has explicitly stated that the CF endorses the A&L view, which has “conceptual primacy” (Storey and Storey (1998), Johnson (2004)). The terms revenues and expenses are defined in SFAC 3 as changes in balance sheet values.⁶ In a FASB publication issued thirteen years into the post-CF period, Storey and Storey (1998, 78-79) note (emphasis added): “Although Concepts Statements 3 and 6 neither mentioned the asset-and-liability view and the revenue-and-expense view nor explained how or why the Board had settled on one of them, *the definitions themselves left no doubt about which view the Board had endorsed.*”

⁵ A complete overview of the development of the conceptual framework is beyond the scope of this project. Refer to Zeff (1999) for a summary of the extant literature.

⁶ SFAC 3 defines revenues (FASB 1980b, paragraph 64) (emphasis added): “Revenues are inflows or other *enhancements of assets* of an entity or *settlements of its liabilities* (or a combination of both) during a period from delivering or producing goods, rendering services, or other activities that constitute the entity's ongoing major or central operations.” The definition was restated (removing “during a period” but otherwise verbatim) in SFAC 6 (FASB 1985, paragraph 78).

However, it was not clear to the FASB's observers that such a meaningful endorsement of the A&L view had taken place. Former FASB member Oscar Gellein – who was on the Board when the definitions were initially developed and issued – noted that the issue of conceptual primacy still “must be resolved” (Gellein 1986, 18). Further, in a review of the CF, Agrawal (1987, 175) notes: “[The FASB] will need to know many things that are not clear in the framework now. Will it use the income statement approach or the balance sheet approach in seeking answers to complex questions?”

Similar reactions are found in comment letters to the final Exposure Draft (ED) for SFAC 3, from which I make two observations. First, the A&L view was unpopular among the FASB's constituents at the time: the comment letter (CL) from Deloitte, Haskins and Sells cites a study which found that respondents preferred the revenue-and-expense view by over 11-to-1. Second, because the ED incorporated elements of both the A&L and R&E views, constituents did not view the document as clearly endorsing the A&L view. Instead, constituents viewed the document as vague, and their consensus was that it slightly favored the A&L view. An excerpt of every CL to the final ED for SFAC 3 that references either the A&L view or the R&E view is included in Appendix 3. The letter from Harvard Professor Robert Anthony – a member of the initial FASB Task Force on the CF (FASB 1973b) – best illustrates precisely how SFAC 3 was seen to blend both approaches and therefore only slightly favor the A&L view:

My ... suggestion is that the document ... should adopt either the asset/liability view or the revenue/expense view, rather than attempting to incorporate aspects of both views.

....

Although the definitions of the elements were framed in asset/liability terms, the Exposure Draft also discusses the ideas of accruals, deferrals, realization, and matching. It says (Paragraph 78) that the goal of these procedures is “to relate revenues, expenses, gains, and losses to periods.” This is a revenue/expense approach; it has nothing to do directly with the measurement of assets and liabilities. Such a discussion leads to confusion.

In 1976, the FASB declared that the number one issue underlying the conceptual framework was the choice between the A&L view and the R&E view (FASB 1976). Contemporaneous observers believed the CF represented only a small change from the status quo. However, with the issuance of SFAC 6 the conceptual framework was complete, thus providing the FASB with its guide.

2.2 Theory of Institutional Change

How is it possible for the minor change within the definitions of elements contained in the CF to be responsible for a large impact on accounting standard-setting? The impact of a small change can be large if it stimulates a path dependent process. A path dependent process is one in which the consequence of small events and chance circumstances can determine solutions that, once they prevail, lead toward a particular path (North 1990, 94). Within this process, both the path and the outcome are unpredictable in that there are multiple equilibria (Arthur et al. 1987).

Early studies of path dependence present examples where product standards and technologies came to dominate the market due to chance circumstances. David (1985) posits that the “QWERTY” keyboard (believed to be inferior to the rival Dvorak Simplified Keyboard) gained early market share by chance and benefitted from network effects to become “locked in” as an option, while Arthur (1990) presents a similar story of the competing VHS and Beta technologies within the VCR market.⁷ Arthur (1994) provides four features of a technology and its social context that can create path

⁷ Liebowitz and Margolis (1990) describe market factors that are likely to unravel the path towards an inefficient standard. However, these market factors are generally not present in accounting standard-setting, in part because standard-setters are granted a monopoly (Jamal and Sunder 2007). For example: “If standards are chosen largely through the influence of those who are able to internalize the value of standards, we would expect, in Darwinian fashion, the prevailing standard to be the fittest economic competitor” (Liebowitz and Margolis 1990, 5).

dependent conditions: (i) large set-up or fixed costs, (ii) learning effects, (iii) coordination effects, and (iv) adaptive expectations (a self-fulfilling prophecy in which increased prevalence of an idea enhances beliefs about it). North (1990) contends that these features also apply to institutional change.

Path dependence is driven by institutional self-reinforcement, a set of forces or complementary institutions that encourage the initial choice to be sustained (Page 2006). This “interdependent web of an institutional matrix” provides increasing returns to the initial choice (North 1990, 95), which encourages economic agents to focus on that choice and to continue movement down its path (Pierson 2000b). This process increases the cost of adopting once-possible alternatives (Pierson 2000b), and it is through this process that the impact of the initial choice is magnified over time.

At the time the primary stage of the framework was completed, there were many plausible outcomes for the FASB. Because the framework endorsed elements of both the A&L and R&E views, the FASB could have maintained the status quo in which they explicitly endorsed neither view and dealt with each issue on a standalone basis. However, this setting provided conditions favorable to path dependence. First, the FASB had a strong *ex ante* commitment to using the CF as a guide to create consistent standards (FASB 1976), a commitment likely strengthened *ex post* given the sizable costs incurred during the CF’s 13-year completion (totaling “tens of millions of dollars” (Gore 1992, 49)). Second, the FASB faced incentives to reach agreement on a single interpretation of each component of the CF – and then reinforce those initial interpretations – because doing so would make subsequent decisions less costly.

The cost mechanism operates as follows. I view the FASB as expending effort (input), for which they incur a cost, in order to produce accounting standards (its unit of output). In Section 2.1, I demonstrate that the FASB's constituents viewed the guidance in the CF as vague. Given this lack of clarity, the FASB faced incentives to settle on a single interpretation of each component of the framework. By doing so, they avoid the costs of effort to determine answers to these conceptual issues when producing future standards. That is, by incurring a series of up-front costs (the effort to select a single interpretation of each component of the CF), the FASB reduces subsequent variable costs (the cost of effort to determine these answers for each standard). These initial decisions are then reinforced because the cost of effort required to change interpretations acts as a barrier to such change.⁸ The process is similar to a common law judicial system, in which precedent is followed because it is less costly to continue down the current path than it is to change to a different path (Hathaway 2001).

I propose that the completion of the primary stage of the CF may have stimulated accounting standard-setting institutions along a path dependent process. That is, as the FASB began interpreting the framework during the initial years it was in force, consensus began to arise around the proper interpretations. Once the position that the framework endorsed the A&L view because of its definitional dependence on assets and liabilities was "locked-in," the related institutions reinforced that decision and created a path in that direction. In the previous section, I demonstrate that constituents viewed the FASB's choice to structure the definition of earnings in A&L terms as a minor change *ex ante*. I

⁸ The FASB's predecessor (the Accounting Principles Board) was criticized for the lack of consistency in its standards (e.g. AAA (1971); see Section 6.1.2). As changing interpretations would result in a lack of consistency across standards, it is also possible that reputational concerns further increase the cost of going against an early interpretation of the CF.

consider whether reinforcement around early interpretations of the framework magnified its impact, creating significant consequences *ex post*.

III. HYPOTHESES

3.1 Hypotheses 1, 2, and 3: RQ#1 – Change in FAF Selection

3.1.1 Hypotheses 1a and 1b

My first research question asks whether the FAF's process of selecting FASB members changed after the framework. Since path dependence encompasses complementary institutions, one would expect to see its effect in accounting standard-setting extend beyond the FASB – such as to the FAF. (Refer to Appendix 2 for an illustration of the relationship between these entities.)

When inaugurating the CF project, the FASB noted that because it would establish certain objectives and concepts “[i]t will narrow the range of alternatives to be considered by the Board” (FASB 1976, 6). If it narrowed the range of accounting alternatives from which Board members were to choose, then it could have also have narrowed the range of acceptable candidates from which the FAF was to select Board members. As noted in Section 2.2, the process of self-reinforcement encourages an initial choice to be sustained; in this case, the initial choice is the interpretation of the CF that became “locked-in.” One method of sustaining a “locked-in” position (and continuing the path in its direction) is to systematically select Board members who will perpetuate that position.

Information about the selection of FASB members and which candidates are nominated by sponsoring organizations is not available to the public (Miller et al. (1994), FAF (2013)). As such, considerations of FAF selection require addressing the question

in an indirect fashion. That is: if the FAF changed the way they select FASB members, what types of outcomes would we observe? One outcome is that the post-CF members may have preferences for different types of standards. One mechanism to identify the position taken by FASB members on various standards is whether they assent or dissent on each Statement of Financial Accounting Standards (SFAS).⁹

Because the FAF does not make available information on those nominated (but not selected) to be FASB members, a different control group is needed. I compare the vote of each FASB member to the position taken by the sponsoring organization(s) representing the member's constituent group, as indicated in comment letters on FASB Exposure Drafts.¹⁰ Historically, these organizations have had direct and formal links to the FAF and the FASB. The CLs from these organizations are typically prepared by a committee specifically organized to interact with the FASB. In fact, the signatories of these letters for SFAS 1 through SFAS 160 include ten future Board members (i.e. prior to their joining the Board), including at least one member from each of the four major constituencies. Given the formal role of these organizations and their committees, this result is not surprising. Indeed, the signatories of comment letters from the sponsoring organizations are likely the single best source of prospective FASB members. As such,

⁹ Subsequent to the completion of the FASB's Codification Project, changes to standards have been made via an Accounting Standards Update (ASU) rather than an SFAS. I have identified those ASUs issued by the FASB that required an affirmative vote of their members (i.e., analogous to an SFAS) and have included them in the population being studied. Any reference to an "SFAS," "Statement," or "standard" may refer to either an SFAS or an ASU.

¹⁰ An Exposure Draft must be published for all projects that lead to an SFAS (Miller et al. 1994). After receiving comment letters on an ED, the FASB is supposed to incorporate only minor changes into the final SFAS – otherwise, they are to issue another ED for public review. For each SFAS, I identify the *final* ED and use the comment letters to those EDs. As such, the position taken in a comment letter to an ED should relate to substantially the same document as the vote on an SFAS. I consider this matter in greater detail in Section 5.5.

the positions taken by sponsoring organizations represent an excellent control group for the positions taken by FASB members from the same constituent group.

By comparing FASB members' votes to positions taken by these organizations, I can identify the extent to which the members' view on normative accounting issues differs from their respective organization(s). Because sponsoring organizations have indirect authority to select FASB members, one would expect FASB member positions to closely represent the organizations' positions. An analysis of these data can help indicate whether those selected onto the FASB have been representatively drawn from their sponsoring organization's preferred candidate pool, or whether the evidence suggests a systematic selection process. If the FAF systematically selected FASB members in the post-CF period, then post-CF members will vote less like their constituent sponsoring organization(s) and more like their peer FASB members (i.e. other post-CF members).¹¹

Hypotheses 1a and 1b: Relative to pre-CF FASB members, post-CF FASB members vote in a fashion that is *less representative* of their underlying constituent sponsoring organization(s) (H1a) and *more similar* to their peer FASB members (H1b).

There is a natural tension in these predictions because the results cannot be easily explained by a shift in the types of standards being issued or in the Board's consensus norms. That is, while the Board can issue standards on which there is natural uniformity of opinion among members – or modify standards in order to create greater internal

¹¹ These procedures contain the following assumptions: FASB members (constituents) truthfully report their preferred position when voting on a Statement (submitting comment letters). Studies indicate that the votes of Supreme Court justices largely reflect their personal ideology – that is, their “attitudes, values, and policy goals” (Segal and Spaeth 2002, 96). As such, FASB members' votes on SFASs are likely to reflect the personal ideology of those members. In a UK study Georgiou (2004) finds that firms' use of unobservable lobbying in the standard-setting process is significantly associated with their use of CLs. This is consistent with U.S. findings of a strong complementary association between various forms of lobbying by interest groups (Ansolabehere et al. 2002). Therefore, it is unlikely that positions stated within comment letters deviate in a systematic fashion from constituents' actual positions.

consensus – if the Board were truly representative of its sponsoring organizations, then the organizations' positions would also demonstrate greater uniformity.

3.1.2 Hypotheses 2a and 2b

If, in the post-CF period, the FAF systematically selects FASB members who favor the A&L view, I would expect that members selected in the post-CF period have a greater preference for standards favoring the A&L view than (i) their constituent sponsoring organization(s) and (ii) Board members selected in the pre-CF period.

Hypothesis 2a: Post-CF FASB members are less representative of their underlying constituent sponsoring organization(s) on A&L standards than on non-A&L standards.

Hypothesis 2b: Post-CF FASB members are more supportive of A&L standards than pre-CF FASB members.

Hypotheses 1 and 2 present a pattern in which the FAF systematically selects FASB members who are not representative of their sponsoring organization(s). For this to occur there must be one or more barriers preventing the sponsoring organizations from intervening in the process. I supplement my discussion in Section 2.2 by describing the sources of some of these barriers in Section 6.1.

3.1.3 Hypothesis 3

While my research question asks whether there is a change in the selection of FASB members, thus far my hypotheses only indirectly test for selection (i.e. by analyzing members' votes *after* their selection). However, my setting provides some more direct evidence: as noted in Section 3.1.1, the signatories of CLs from the sponsoring organizations include ten future members of the FASB (four pre-CF members and six post-CF members). These data allow me to better isolate the selection

mechanism because they reflect positions taken by FASB members *prior* to their selection.

Hypothesis 3: Comment letters on A&L standards that were signed by post-CF FASB members are more favorable towards the proposed standard than other letters, *ceteris paribus*.

In H3 I treat the non-selected signatories as a control group – that is, a group of eligible FASB members that were not selected. While they do not represent the entire population of potential members, these signatories are an effective control group in this setting because they are matched to the subset of Board members who held a similar position prior to their selection.

3.2 Hypothesis 4: RQ#2 – Ideological Homogenization

My second research question asks whether the FASB has become ideologically homogeneous in the post-CF period. The first step in evidencing ideological homogeneity is to demonstrate a decrease in overall dissent, which is predicted by H1a. However, it is instructive to analyze the situation further.

Dissent can take a variety of forms. I focus on two forms of dissent that are fundamentally different in nature, as outlined in Figure 2. One form of dissent arises when one strictly opposes an idea – i.e., dissent arising from the opposite end of the ideological continuum (outside dissent). However, dissent can also arise from more extreme elements within one's own ideology (inside dissent).¹² As inside dissent does not reflect a truly opposite viewpoint, it is indicative of a smaller degree of ideological heterogeneity than outside dissent.

¹² In fact, the initial formal U.S. standard-setting body (the AICPA's Committee on Accounting Procedure) began publishing dissenting arguments in 1939 in order to distinguish between these two types of dissent (Zeff 1971, 138).

If the standard-setting institutions reinforced around the CF in the manner I have proposed, it would imply that perhaps all post-CF FASB members are positioned on one side of the ideological continuum. In these conditions, one would expect to observe both a change in overall dissent and a change in the *type* of dissent. Specifically, in the post-CF period there should be greater inside dissent: opposition arising because the standards do not *go far enough* to advance the asset-and-liability view.

Hypothesis 4: On those SFASs that favor the asset-and-liability view, there is a greater degree of inside dissent for post-CF FASB members than for pre-CF FASB members.

IV. EMPIRICAL DESIGN

4.1 Hypotheses 1, 2 and 3: RQ#1 – Change in FAF Selection

4.1.1 Hypotheses 1a and 1b

Hypotheses 1a and 1b state that relative to pre-CF FASB members, post-CF members vote in a fashion that is less representative of each member's respective sponsoring organization(s) and more similar to their peer FASB members. Categorizing votes for FASB members is straightforward because FASB members can take only one of two possible positions on each Statement, as identified by their vote: assent ($POS_i = 1$) or dissent ($POS_i = 0$). However, the process of operationalizing the position of the member's sponsoring organization(s) is more complex – in theory, their position on a Statement is a continuous variable whose value could be a full assent, a full dissent, or anywhere in between. I describe the process to obtain these positions below.

I start by identifying every comment letter submitted by every sponsoring organization to the final ED relating to all Statements from SFAS 1 through SFAS 160 (inclusive of revisions: SFAS 123R, 132R, and 141R). For tractability, I classify

sponsoring organizations' CL positions into five categories: strongly oppose ($POS_m = 0$), lean oppose (0.25), neither support nor oppose (0.5), lean support (0.75), and strongly support ($POS_m = 1$). I measure the position of constituent group j on Statement t as the average position taken by that group's sponsoring organization(s) (m). Finally, I match the FASB vote on a Statement (POS_i) to the position of that member's constituent group on the related Exposure Draft (POS_j). Figure 1 illustrates positions taken by FASB members and sponsoring organizations, while Appendix 4 provides definitions for each CL position as well as the coding instructions and examples of CL language within each category.¹³

For these data, my sample is limited to the extent that I identify positions of constituent groups: I am unable to "match" a FASB vote on a Statement to the position of their constituency if the associated sponsoring organization(s) does not submit a CL on the related Exposure Draft. When this occurs, I drop the observation from the "matched sample."¹⁴ Because the Government sponsoring organizations (GFOA and NASACT) submitted CLs on only two Statements, I drop the Government constituency from my sample. I also drop all Statements with fewer than two matched votes. My final sample of matched votes comprises 152 Statements (762 votes) out of a possible 163 Statements (1,006 votes, excluding the Government constituency).

¹³ For these procedures I treat the comment letter positions as interval variables – i.e., variables in which the distance between each ordered position is equal. However, it is possible that the 'true' value for each position differs from the interval values. I am comfortable with the interval values because I use a symmetric scale around the midpoint ("neither support nor oppose") and used similar language to define the points located on each side of the midpoint. In addition, I included the POS_m values relating to each category as part of the coding instructions.

¹⁴ I expect sponsoring organizations will submit CLs when the benefit of doing so exceeds the cost. Therefore, the set of CLs I observe for each organization likely represents those Statements that have meaningful priority to that organization, while the Statements on which no letter is submitted are likely immaterial to that organization.

I further illustrate this process by using SFAS 87 (“Employers’ Accounting for Pensions”) as an example. Seven FASB members voted on SFAS 87 – three auditors, one preparer, one user, one academic, and one government regulator. Comment letters to the final ED relating to SFAS 87 were received from the AICPA, FEI, IMA, CFA Institute, and AAA. I read each letter and use the coding rubric outlined in Appendix 4 to code each letter’s position. Finally, six FASB votes are matched to constituent positions: the three auditors to the AICPA position, the preparer to the average of the FEI and IMA positions, the user to the CFA Institute position, and the academic to the AAA position.

To test Hypothesis 1a, I develop a variable, *Representativeness* (R_t), to measure how representative the FASB is of their sponsoring organizations on each Statement. I measure representativeness at the Statement level rather than for each member-Statement pair because sponsoring organizations do not directly select FASB members – the FAF *collectively* elects them. The R_t variable measures the extent to which the FASB’s position on Statement t (taken by the total number of assents) aligns with the constituent groups’ position (measured as the sum of the POS_j values on matched votes). It is structured such that ‘perfect’ representativeness – no difference between the aggregate FASB position and the aggregate position of the constituent groups – leads to a score of 1.0 (see equation 1).¹⁵

$$R_t = 1 - \frac{\left| \sum_j POS_{j,t} - \sum_i POS_{i,t} \right|}{n_{i,t}} \quad (1)$$

¹⁵ I use data from SFAS 87 as an example to explain the intuition behind the metric. There were 6 matched FASB votes on SFAS 87 ($n_{i,t} = 6$), 3 assents and 3 dissents ($\sum POS_{i,t} = 3$). The matched constituent positions were 0.25, 0.25, 0.25, 0.25, 0.75, and 0.75 ($\sum POS_{j,t} = 2.5$). Therefore, the numerator is equal to 0.50, the quotient is equal to 0.08, and R_t is equal to 0.92, indicating strong alignment between the FASB and its constituent sponsoring organizations.

$POS_{j,t}$ ($POS_{i,t}$) represents the position of constituent group j (FASB member i) on Statement t , while $n_{i,t}$ represents the total number of matched FASB member votes on Statement t . While SFAC 6 was issued immediately before SFAS 89, the pre-CF/post-CF Board majority changed before SFAS 94 (i.e., a majority of members voting on SFAS 93 were selected in the pre-CF period while the majority on SFAS 94 were selected in post-CF period). In order to delineate the representativeness of pre-CF members from post-CF members, *Representativeness* is determined using only the votes by pre-CF members (post-CF members) for SFAS 1 through SFAS 93 (SFAS 94 through SFAS 160). Finally, as noted above, I drop all Statements with fewer than two matched votes. To test whether there has been a decline in representativeness, I perform a Welch's t-test for populations with unequal variances over the average difference in R_t on Statements generated in the pre-CF and the post-CF periods.

Hypothesis 1b predicts that FASB members selected in the post-CF period vote more like their peers. If this is the case, their voting patterns should demonstrate greater unanimity and therefore less dissent. To test this I perform a Welch's t-test over the difference in dissent percentage (total dissents \div total votes) between pre-CF FASB members and post-CF FASB members.

The format of H1a lends itself to further analysis within a difference-in-differences (D-in-D) design. This design is desirable because it controls for permanent differences between the FASB and its constituents as well as for inter-temporal changes that affect both groups. In order to execute this design, I first develop a measure of constituent dissent similar to FASB dissent: I code positions less than (equal to) 0.5 as a dissent (one-half of a dissent). I then execute a D-in-D of total FASB and constituent

dissents relating to pre-CF and post-CF FASB members. Hypotheses 1a and 1b do not speak to the difference in constituent dissent across periods, but consistent with H1b I expect that FASB dissent declines across periods. Consistent with H1a, I expect the D-in-D to be positive and significant (i.e., post-CF members vote less like their constituents than pre-CF members).

4.1.2 Hypotheses 2a and 2b

Hypothesis 2a (2b) predicts that the decrease in representativeness (increase in FASB accord) from the pre-CF to the post-CF period is related to standards favoring the A&L view. For proponents of the R&E view, the appropriate matching of expenses with revenues takes precedence over the measurement of assets and liabilities based on their economic substance. However, from the A&L viewpoint the measurement of assets and liabilities based on their economic substance is key – since earnings is viewed as the change in wealth, wealth itself must be properly measured – and financial statement information based on its economic substance is “usually more relevant in economic decisions” (FASB 1976, 153). As such, I operationalize Statements that favor the A&L view as those that increase accounting relevance. (These competing viewpoints are summarized in Appendix 1.)

Allen and Ramanna (2013) provide two metrics, *inc_relv* and *Manual_inc_relv*, which measure the extent to which the Exposure Draft relating to each SFAS increases perceived accounting relevance.¹⁶ To identify Statements that increase relevance I

¹⁶ The *inc_relv* metric derives from a textual analysis of comment letters provided by Big 8/6/5/4 auditors via the following process. First, all uses of the word stem “relevan” are extracted from each letter. Second, an RA assesses whether each reference is used in a positive (negative) context, or if the usage is irrelevant. Finally, the measures are determined based on the position within the letter of the first positive (negative) reference, such that the value of *inc_relv* is higher if the first reference appears earlier in the letter. The

develop an indicator variable, *Inc_Relv*, which equals unity if either of the Allen and Ramanna relevance measures is greater than zero.

I test H2a by estimating equation 2 in a cross-sectional regression, with each observation reflecting an SFAS.

$$R_t = \alpha + \gamma_1 * Pre_t + \gamma_2 * Inc_Relv_t + \gamma_3 * Inc_Relv_t * Pre_t + \gamma_4 * AvgTenure_t + \gamma_5 * LagReturn_t + \gamma_6 * ED_Frequency_t + \varepsilon \quad (2)$$

Representativeness (R_t) measures the extent to which the FASB's position on Statement t aligns with the position of their sponsoring organizations. *Pre* is an indicator variable equal to unity when the majority of FASB members voting on the SFAS are pre-CF members. *Inc_Relv* identifies Statements that increase accounting relevance.

AvgTenure is measured as the log of the average number of Statements the members have voted on as of (and inclusive of) Statement t . It is included as a control variable because FASB member tenure is identified by Allen and Ramanna (2013) as a determinant of standard-setting outcomes. *LagReturn* is the lagged one-year return on the CRSP value-weighted index as of the date of the final ED to each Statement. Because public demand for regulatory activity tends to peak following market failures (e.g., Becker (1983)), regulators may have more inherent authority to produce industry-unfriendly outputs in relatively poor economic periods than during strong periods. As such, *LagReturn* should be positively related to R_t . *ED_Frequency* is measured as the log of the number of EDs that ultimately became standards that were issued in the two years prior to the date of the final ED to each Statement. To the extent constituent concerns of 'standards overload' (e.g., Hepp and McRae (1982)) influence their position on an ED, the *ED_Frequency* coefficient will be negative.

Manual metric differs from *inc_relv* in that it is derived from a manual assessment from two independent reviewers.

Since the level of analysis is an SFAS, the output is produced by a combination of FASB members. As such, I partition the population of SFASs into those created by unique combinations of FASB members (see Appendix 5), and I cluster standard errors by combination. Because the underlying hypothesis is motivated by a consideration of a selection effect, I exclude combination fixed effects from my model. These fixed effects capture explanatory power related to systematic differences between each combination of FASB members, which is endogenous to my selection story (that is, precisely what the *Pre-Post* split in the model is designed to capture).¹⁷

By construction, the reference category for equation 2 is *Post*, so coefficient γ_2 represents the impact of A&L standards on *Representativeness* in the post-CF period. Hypothesis 2a predicts that post-CF FASB members are less representative of their constituents on A&L standards than non-A&L standards. As such, a parsimonious test of H2a is that γ_2 is negative and significant.

For testing H2b, I again operationalize FASB disagreement with dissent percentage. In this case, however, I require a Statement-level variable that cleanly delineates the dissent among pre-CF members from the dissent among post-CF members. As the majority changed between the issuance of SFAS 93 and SFAS 94, the variable represents the dissent percentage among pre-CF members (post-CF members) for SFAS 1 through SFAS 93 (SFAS 94 through SFAS 160).

I test Hypothesis 2b by estimating equation 3 in a cross-sectional regression, with each observation reflecting an SFAS.

¹⁷ A number of additional variables identified by prior literature as determinants of standard-setting outcomes (e.g. prior experience, political affiliation, professional background, etc.) are time-invariant personal characteristics and are therefore also endogenous to my consideration of a selection effect. As such, they are also excluded from my model.

$$FASB\ Dissent_t = \alpha + \lambda_1 * Pre_t + \lambda_2 * Inc_Relv_t + \lambda_3 * Inc_Relv_t * Pre_t + \lambda_4 * AvgTenure_t + \lambda_5 * Supermajority_t + \varepsilon \quad (3)$$

FASB Dissent is the dissent percentage among pre-CF (post-CF) FASB members before (after) SFAS 94. *Pre* is an indicator variable equal to unity when the majority of FASB members voting on the SFAS are pre-CF members. *Inc_Relv* identifies Statements perceived as increasing accounting relevance. *AvgTenure* is measured as the log of the average number of Statements the members have voted on as of (and inclusive of) Statement *t*. *Supermajority* is an indicator variable equal to unity when a Statement is issued under a required supermajority vote (see Panel D of Table 3 for additional detail). As simple majorities (e.g. 4-3 votes) are not possible under such regimes, I expect this variable to be negatively related to dissent percentage. I estimate the equation using a Tobit regression because the dependent variable is left-censored at zero. As before, I cluster standard errors by combination, and I exclude combination fixed effects from my model.

By construction, the reference category for equation 3 is *Post*, so the sum of coefficients ($\lambda_2 + \lambda_3$) represents the impact of A&L standards on *FASB Dissent* in the pre-CF period while coefficient λ_2 represents the impact in the post-CF period. Hypothesis 2b predicts that post-CF FASB members are more supportive of A&L standards than pre-CF FASB members. As such, a parsimonious test of H2b is that λ_3 is positive and significant.

4.1.3 Hypothesis 3

Hypothesis 3 predicts that comment letters on A&L standards that were signed by post-CF FASB members are more favorable than others. To test H3, I estimate equation 4 in an ordered logit regression with sponsoring organization fixed effects, and with

standard errors clustered by sponsoring organization. Each observation represents a comment letter from one of the following five organizations: AICPA, FEI, IMA, CFA Institute, and the AAA.

$$POS_m_Ordinal = \alpha + \delta_1 * FASB_Pre-CF + \delta_2 * FASB_Post-CF + \delta_3 * POS_{others_Ordinal} + \sum \mu_1 * Org_Fixed_Effects_m + \sum \mu_2 * Org_Fixed_Effects_m * Inc_Relv + \varepsilon \quad (4)$$

$POS_m_Ordinal$ represents the position of sponsoring organization m on each CL, and is transformed from the original variable taking values $\{0.0, 0.25, 0.5, 0.75, 1.0\}$, where zero is “strongly oppose” and one is “strongly support,” to take integer values $\{1, 2, 3, 4, 5\}$. $FASB_Pre-CF$ ($FASB_Post-CF$) is an indicator variable equal to unity when one of the signatories on the CL was subsequently selected to the FASB in the pre-CF (post-CF) period. Control variable $POS_{others_Ordinal}$ is the average of the ordinal CL positions taken by the other sponsoring organizations on the related Statement, and therefore should be positively related to $POS_m_Ordinal$. As before, Inc_Relv identifies Statements perceived as increasing relevance (i.e., the A&L standards). The interaction terms (with coefficients μ_2) control for cross-sectional variation in organizational preferences on A&L standards, incremental to the overall organizational preferences that are captured by the fixed effects.

I will first estimate equation 4 for the full sample of comment letters, and will then estimate it across the subsample of A&L standards (excluding the interaction terms containing the Inc_Relv variable which is used to identify the subsample). A parsimonious test for H3 is that δ_2 is positive and significant when equation 4 is estimated across the subsample of A&L standards.

4.2 Hypothesis 4: RQ#2 – Ideological Homogenization

Hypothesis 4 compares inside dissent on those SFASs that favor the asset-and-liability view between pre-CF and post-CF FASB members. To identify inside dissent I need to focus on a single dimension on which to measure members' preferences. I focus on fair value accounting because it is well-recognized that standards in recent years have called for an increased use of fair values (e.g. Demerjian (2011)). As such, if there is an increase in opposition arising because standards do not go far enough to advance the A&L view, it will likely be observed on this issue. The Allen and Ramanna (2013) measure *Manual_inc_relv* (introduced in Section 4.1.2) operationalizes standards increasing in relevance as those that include some measure of fair value accounting. As such, I define a “fair value Statement” as those with a *Manual_inc_relv* value greater than zero.

At the end of each Statement, dissenting FASB members provide an explanation for their vote. To test H3, I hand-collect each of these dissenting explanations and manually code them into categories of dissenting arguments (see Appendix 6 for a list of argument types and a detailed explanation of the coding process). For H3, I focus on those dissenting arguments that explicitly call for greater use of fair values. The test for H3 is a comparison of the percentage of greater-use-of-fair-value dissents on fair value Statements for pre-CF FASB members and post-CF members. An increase in this percentage represents an increase in inside dissent.

Detail on the definitions, construction, and availability of all variables is included within Table 2. All data used in empirical tests are available to the public: the voting record of FASB members and the text of all dissenting arguments is available within each

SFAS, documents from the FASB Public Record (e.g. comment letters for EDs and proposed SFACs) are available from the FASB by request, and the Allen and Ramanna (2013) relevance measures are included in their Table D1.

V. RESULTS

5.1 Descriptive Statistics

Table 3 summarizes FASB voting data and provides information on each member's underlying constituency and their prior standard-setting experience. Panel A (Panel B) provides voting data for all pre-CF (post-CF) members. Panel C subtotals the data by Chairperson, and Panel D subtotals the data for each change in FASB voting requirement. The raw voting data demonstrates a decrease in dissent over time, consistent with predictions. Figure 3 presents temporal patterns of FASB dissent, constituent dissent, and Statement type for the matched sample of FASB votes. It presents initial confirmation of a post-CF increase in FASB accord coinciding with an increase in standards increasing accounting relevance, and also demonstrates a post-CF increase in constituent dissent. In Section 5.4.2 I discuss how these patterns are consistent with a path dependent process.

Panel A (Panel B) of Table 4 provides descriptive statistics (the correlation matrix) for key variables. The univariate correlations between constituent positions may provide a glimpse into the nature of the lobbying coalitions faced by the FASB: there is a strong positive relationship between the positions taken by auditors and preparers and by users and academics, but no significant relation between positions of any other constituent pairing. Further, per the Pearson correlations, auditors and preparers take more negative positions to standards increasing relevance than do users and academics.

5.2 Hypotheses 1, 2, and 3: RQ#1 – Change in FAF Selection

5.2.1 Hypotheses 1a and 1b

Hypothesis 1a predicts a decline in FASB representativeness (R_t) for post-CF members relative to pre-CF members. Results in Panel A of Table 5 are consistent with H1a: the average R_t value decreases from 0.81 to 0.68, a 16% decrease (p-value=0.000). (Perhaps a more intuitive way to view this result is that the FASB's per-member-vote “representativeness gap” increased 69%, from 0.19 to 0.32.) To further underscore the economic significance of this result, only 15 out of 87 R_t values in the pre-CF period are less than the average post-CF value.

Hypothesis 1b predicts a reduction in dissent from pre-CF to post-CF members. The results in Panel B are consistent with this prediction: pre-CF members dissented on 17.1% of their total votes, while post-CF members dissented on only 7.3% of their votes, a decrease of 57% (p-value=0.000). Panel C demonstrates the decline in FASB dissent is robust to changes in voting requirement regime.

Panel D provides the difference-in-differences analysis. Consistent with H1b, FASB Dissent within the matched sample decreases significantly among post-CF members (from 18.5% to 10.1%); further, constituent dissent increases significantly in this period (from 21.2% to 30.7%). Consistent with H1a, the D-in-D is positive and significant. Indeed, the D-in-D result provides perhaps the strongest indication of the economic significance of H1a.

Panel E of Table 5 disaggregates the data from Panel D by constituent group. This panel highlights that post-CF dissatisfaction is most pronounced within the Preparer constituency (i.e. the FEI and IMA), whose dissent percentage in the pre-CF period (post-

CF period) is 24% (43%). On the other hand, the User constituency (primarily the CFA Institute) is the only group with greater approval of the FASB in the post-CF period than the pre-CF period (post-CF dissent percentage of 15%).

Panel E also provides detail on comment letter submission frequency in each period to help identify any systematic patterns to “missing” CLs (i.e. unobserved constituent positions) that could confound the results for H1a. In two cases (auditors and academics) there is no relation between changes in submission and changes in dissent, while in the other two cases (preparers and users) lower submission rates are related with greater dissent. This presents weak evidence that missing CLs are likely to be dissents, particularly for the latter two groups. If this were the case it would imply that I am “missing” user dissents in the pre-CF period and preparer dissents in the post-CF period, and these missing dissents would *strengthen* the finding that post-CF FASB members vote less like their constituents. As such, it is unlikely that unobservable constituent preferences affect my findings.

5.2.2 Hypotheses 2a and 2b

Hypothesis 2a predicts that post-CF FASB members are less representative of their constituents on A&L standards than non-A&L standards. The results for H2a are included in Table 6. The positive coefficient on the standalone *Pre* variable indicates that R_t is higher among pre-CF members, consistent with H1a. Regarding the control variables, the *LagReturn* coefficient is positive and significant (p-value=0.03), which is consistent with the FASB issuing unpopular standards more often during weak

macroeconomic periods than strong periods.¹⁸ The *ED_Frequency* coefficient is negative, as expected, but is not significant (p-value=0.12). The *AvgTenure* coefficient is positive but is not significant (p-value=0.21). I explore this result further in Section 5.4.3.

Regarding the variable of interest, the results are consistent with H2a as the *Inc_Relv* coefficient is negative and statistically significant (p-value=0.05 in both columns). This result is also economically significant, as A&L standards account for 37% of the decline in *Representativeness*.¹⁹

Hypothesis 2b predicts that post-CF FASB members are more favorable towards A&L standards than pre-CF FASB members. The results for H2b are included in Table 7. The positive coefficient on the standalone *Pre* variable indicates that *FASB Dissent* is higher among pre-CF members, consistent with H1b. Regarding the control variables, the *Supermajority* coefficient is positive (opposite to predictions) but is not significant (p-value=0.56). The *AvgTenure* coefficient is positive and significant (p-value=0.08). I explore this result further in Section 5.4.3.

Regarding the variable of interest, the results are consistent with H2b as the coefficient on the *Inc_Relv*Pre* term (which represents how the pre-CF result differs from the post-CF result) is positive and significant (p-value=0.03 in column 2). This is

¹⁸ When two-year lagged returns are substituted in the model for one-year lagged returns, the result is no longer statistically significant (p-value=0.15, untabulated). Additional research is necessary to validate of the effect of macroeconomics on standard-setting outcomes.

¹⁹ While A&L standards comprise only 9% of pre-CF standards, they comprise 60% of post-CF standards (untabulated). The percentage quoted in the text was determined by multiplying the *Inc_Relv* coefficient in column 2 by the percentage of A&L standards in the post-CF period and dividing by the decline in *Representativeness* across periods: $(-0.081) * 60.3\% \div (-0.132) = 37.0\%$.

consistent with A&L standards driving significantly greater *FASB Dissent* among pre-CF members than post-CF members.²⁰

5.2.3 Hypothesis 3

Hypothesis 3 predicts that comment letters on A&L standards that were signed by post-CF FASB members are more favorable than others. Across all Statements, out of 511 total CLs, 22 (37) CLs are from 4 (6) unique pre-CF (post-CF) members, with no single member responsible for more than 9 (14) CLs (untabulated). The results for the entire sample of CLs are included in column 1 of Table 8: *ceteris paribus*, pre-CF FASB members took positions less favorable to the FASB's Exposure Drafts (p-value=0.10) while post-CF members took more favorable positions (p-value=0.01).²¹ The difference in these estimated coefficients is significant (p-value=0.00). This result is consistent with a systematic change in the selection of FASB members around the CF.

In column 2, I estimate the regression on only the *Inc_Relv* subsample – that is, for A&L standards. *FASB_Pre-CF* is excluded from this analysis because there is only one related comment letter on which to estimate the coefficient. Out of 170 CLs in the subsample, 16 are from 5 unique post-CF members, with 9 CLs from one member (across two organizations; untabulated). The results in column 2 are consistent with Hypothesis 3: *ceteris paribus*, the odds of a comment letter on an A&L standard being favorable are 449% higher for post-CF FASB members than for others (p-value=0.00).

²⁰ The CF initially stated that *relevance* and *reliability* were the two primary qualities that make accounting information useful for decision making (FASB 1980a). Along with their relevance metrics, Allen and Ramanna (2013) also provide metrics that measure whether each ED decreases perceived reliability. In untabulated results, I include a reliability variable (determined in a similar manner as *Inc_Relv*) in tests for H2a and H2b. The results are broadly consistent with Kadous et al. (2012) in that constituent opposition to standards increasing reliability in the post-CF period appears to arise from their concerns about the reliability of the measures.

²¹ The Brant (1990) diagnostic test of the proportional odds assumption indicates that the assumption is violated (at the 1% significance level) for the *FASB_Pre-CF* and *Inc_Relv* variables. Therefore, caution should be taken when interpreting the odds ratio for those variables.

In summary, results for H1 and H2 are consistent with the selection of post-CF FASB members being systematic, and with the selection centering on their preference for the A&L view. Hypothesis 3 provides more direct evidence in support of a shift around the CF in the selection of FASB members, particularly in regards to their *ex ante* preference for the A&L view. In total, the pattern of evidence presented in Section 5.2 makes it appear “as if” the FAF has systematically selected members whose views are in-line with the asset-and-liability view of accounting.

5.3 Hypothesis 4: RQ#2 – Ideological Homogenization

The results for Hypothesis 4, which predicts an increase in inside dissent among post-CF members on fair value Statements, are included in Panel A of Table 9. All Statements on which I identify inside dissent among post-CF members is included in Panel B, and the text of all post-CF ‘inside’ dissenting arguments is included in Appendix 7. Among pre-CF members voting on fair value standards, two (three) of the 16 dissenters argue for lesser (greater) use of fair values. Among post-CF members voting on fair value standards, three of the 18 total dissenters argue for lesser use of fair values, while 11 argue for greater use. Notwithstanding the small populations, the increase in inside dissent from the pre-CF to the post-CF period is significant at the 1% level.

In summary, post-CF FASB members dissent far less often than pre-CF members while they issue far more standards favoring the asset-and-liability view, including numerous fair value standards. Further, in more than half of the limited dissents by post-CF members on fair value standards, the dissenting member argues for an even *greater* use of fair values. At the time the conceptual framework was being debated, the constituent preference was greater than 11-to-1 against the A&L view. On the twenty-

two most recent fair value standards for which Allen and Ramanna (2013) measures are available – encompassing 149 votes in total – there is only one dissent that does not explicitly call for an even greater use of fair values. The evidence indicates that, since the completion of the primary stage of the conceptual framework, the FASB has become ideologically homogeneous with respect to the asset-and-liability view of accounting.

5.4 Robustness Procedures

5.4.1 The Endogeneity of the Conceptual Framework

In Section 2.2, I treat the CF as an exogenous parameter and consider whether it stimulated change within standard-setting institutions. However, the CF is likely endogenous to my setting in that the forces and conditions that created the framework may have had a continuing direct effect (separate from the CF itself) on the subsequent institutional change. I structure the theory this way for two reasons.

First, even if the framework's soft endorsement of the A&L view was the result of political design (Kingston and Caballero 2009), path dependence can still explain the resulting *institutional change*. This is because, in a path dependent process, the pattern and outcome remain unpredictable even after movement has started down a particular path. Further, anecdotal evidence contradicts that the choice was the result of political design. Kirk (1989, 100) addresses the difficulty the Board had in reaching common ground on the CF and acknowledges “[t]here was an unwritten understanding that the Board would strive for unanimity on the framework projects to help assure acceptability of the concepts.” Therefore, the CF's soft, ambiguous endorsement of the A&L view is most likely the result of a fractured Board attempting to develop a framework on which everyone could agree.

Second, the potential endogeneity of the CF should have an insignificant effect on the accuracy of the empirical results, subject to the following limitation: I cannot distinguish the extent to which the institutional changes I demonstrate are due to the CF itself or due to the forces and conditions that created the CF. However, as noted above, it is unlikely that a significant component of the institutional change is the result of conscious political design, and to the extent the institutional change is primarily evolutionary the CF can be reasonably considered an exogenous parameter.

5.4.2 Initial Evidence of Path Dependence

In this section, I seek more direct evidence as to whether the post-CF empirical pattern is the result of a path dependent process, in which sequence matters because the initial choice influences subsequent choices. I expect two trends to follow if this is the case. First, the frequency of standards favoring the A&L view should grow over time in the post-CF period, with no such trend in the pre-CF period. These pre- and post-CF patterns are confirmed through review of Figure 3.

Second, the FASB should grow further apart from its constituent sponsoring organizations over time in the post-CF period, with no such trend in the pre-CF period. To test this, I regress *Representativeness* on a pre-CF time trend variable, a post-CF time trend variable, and the *Pre* indicator variable. I predict that representativeness decreases over time in the post-CF period, while there is no trend in the pre-CF period. Results (untabulated) support this pattern, as the coefficient on the pre-CF trend variable is insignificant and the coefficient on the post-CF trend variable is negative and significant. While additional work is necessary to meaningfully test for the presence of path dependence, this preliminary evidence provides initial support, as the empirical patterns

documented here are precisely what one would expect to see from a path dependent process.

5.4.3 Selection or Socialization?

In testing H1 and H2, I use *ex post* voting decisions of selected members. However, it is possible that members' opinions on normative accounting matters change during their tenure with the FASB. If this takes place systematically – e.g. through a socialization process that leads post-CF FASB members to develop similar opinions over their tenure – I would be unable to differentiate whether the results are due to selection or socialization. I perform two procedures to rule out the socialization explanation.

First, I use the voting behavior of the three pre-CF members who continued to serve on the Board in the post-CF period: Mosso, Brown, and Lauver. If a process of socialization drives voting behavior of post-CF members, the voting pattern of pre-CF members should also exhibit greater unanimity in the post-CF period. In the pre-CF period, they combine for 93 assents and 17 dissents (15.5%). In the post-CF period they combine for 31 assents and 10 dissents (24.4%), while across the same standards members selected in the post-CF period combine for 112 assents and 12 dissents (9.7%). This pattern is inconsistent with a socialization effect.

Second, I re-run equations 2 and 3 separately for the *Pre* and *Post* periods, as the *AvgTenure* variable can provide evidence on whether post-CF members change positions over their tenure in order to conform to the post-CF norm.²² I interpret negative coefficients in the *Post* regressions as consistent with a socialization effect (i.e., more exposure to the FASB in the post-CF period decreases *Representativeness* and reduces

²² I run separate *Pre* and *Post* regressions rather than testing the difference on the entire sample (by using a *Pre* indicator variable, as with earlier tests) because the *AvgTenure*Pre* interaction term introduces collinearity problems.

Board dissent) and positive coefficients as consistent with a “cold feet” effect (i.e., new FASB members are more likely to conform to the post-CF norm). For both equations the *AvgTenure* coefficient is positive but not statistically significant in the *Pre* period, and is larger in magnitude and more significant in the *Post* period (p-values=0.12 and 0.01 for *AvgTenure* coefficients in the *Post* period in Eq. (2) and (3); untabulated). Therefore, the evidence rejects the socialization effect while providing some preliminary support for the “cold feet” effect.

5.5 Additional Robustness Procedures

It is possible that the FASB anticipated the contents of the framework and began to implement it before completion of the primary stage; as such, I consider alternate “cut-off” points prior to SFAC 6. When SFAC 5 was issued – four years after SFAC 3 and with five (of seven) members from SFAC 3 remaining – multiple observers viewed the concepts statement as favoring the R&E view.²³ Given the ongoing internal debate over the direction of the framework, and because SFAC 5 addressed important topics (recognition and measurement), it seems unlikely that the FASB began implementing the framework before SFAC 5. While SFAC 5 is a plausible alternate cut-off point, it was issued only one year before SFAC 6 (in December 1984), and in that one year the FASB did not issue any SFASs and had only one new member (Arthur Wyatt, who only voted on 11 SFASs during his tenure). As such, it is unlikely that using SFAC 5 as a cut-off would materially affect my empirical results.

²³ Miller (1990) outlines the development of the CF, and describes SFAC 3 as the culmination of an A&L ‘reformation’ and SFAC 5 as an opposing ‘counterreformation.’ In addition, in his comment letter to the ED for SFAC 5 [FASB File Reference # 1050-017, Letter of Comment No. 5], Robert Anthony states that it indicates “a shift away from the asset/liability approach and toward the revenue/expense approach.”

It is also possible that my results are influenced by coding errors in which a coded position does not reflect the true position of a comment letter. There are two types of coding errors – systematic and idiosyncratic. Systematic coding errors should not influence my findings, as the errors would “cancel out” in my time series and cross-sectional analyses. Idiosyncratic errors are the result of coding accidents. I test the sensitivity of my results to idiosyncratic coding error by performing jackknife procedures for tests of H1a, H2a, and H3, in which the hypothesis tests are estimated by successively eliminating one observation. I demonstrate that for those hypotheses, in no instance does the elimination of an observation affect the significance of any hypothesis test (untabulated). As such, it is unlikely that my results are influenced by idiosyncratic coding error.

As previously noted, if the FASB makes substantive changes to an existing Exposure Draft they must release a revised ED for public review rather than issue a Statement that incorporates those changes. However, it remains possible that significant changes are made from the Exposure Draft on which constituents provided comment letters to the Statement on which I observe FASB voting. These instances bias my results to the extent their frequency differs between the pre-CF and the post-CF period. To shed light on the possibility of such a shift, I estimate equation 5 with a cross-sectional regression using OLS with standard errors clustered by Combination.

$$TimeLag_t = \alpha + \zeta_1 * Pre_t + \zeta_2 * Constituent Dissent_t + \zeta_3 * Constituent Dissent_t * Pre_t + \varepsilon \quad (5)$$

TimeLag is calculated as the log of the number of months between release of the ED and the SFAS, which I use as a proxy for the degree of change made to the ED after its release. *Pre* is an indicator variable equal to unity when the majority of FASB

members voting on the SFAS are pre-CF members. *Constituent Dissent* is the percent of constituent dissents on a Statement (dissents \div matched votes). I interpret a negative ζ_3 coefficient as evidence of a shift in which the FASB made more substantive changes to an ED in response to poor constituent support in the post-CF period than in the pre-CF period. Because the estimated ζ_3 coefficient is positive and statistically insignificant ($\zeta_3=0.07$, p-value=0.89; untabulated), it is unlikely that my results are confounded by such a shift.

Finally, while I review the responses of sponsoring organizations to EDs that ultimately become SFASs, it is possible that, in the post-CF period, the FASB has responded to constituent dissent on EDs by abandoning a greater number of projects. To address this possibility, I obtained an internal FASB report providing detail on all of their EDs. In the pre-CF (post-CF) period, the FASB issued 117 (102) EDs relating to standards and abandoned 4 (5) of those.²⁴ As such, it does not appear that the FASB has abandoned a large number of post-CF projects in response to constituent dissent.

VI. DISCUSSION AND CONCLUSION

6.1 Discussion

The possibility that the FAF systematically selects FASB members who are not representative of their sponsoring organization(s) raises the question: why do the organizations allow this to happen? Also, the possibility that the FASB is ideologically homogeneous raises its own question: what are the consequences of such a condition? I briefly address each question.

²⁴ The report, titled “FASB Exposure Drafts—Disposition As of February 9, 2011, Compiled by FAF Library,” was obtained by request. Abandoned EDs are those indicated on the report as inactive or dropped from the agenda.

6.1.1 What factors allow this situation to persist?

There are at least three economic factors that make it difficult for the FASB's constituents to alter the course of standard-setting. First, the path dependence theory predicts that institutional self-reinforcement will strengthen the standard-setting institutions' stability, causing significant increases in the cost of switching and making it difficult to move off the established path (Pierson 2000a). I note that incremental changes to the framework of the FAF (in 1987, 2002, and 2008) have served to erode, and ultimately eliminate, the formal authority of the sponsoring organizations to select FAF Trustees. As a result of the final change in 2008, existing Trustees unilaterally elect new Trustees (see Appendix 2 for details).²⁵ These changes strengthen U.S. standard-setting institutions by allowing them to continue along a path not supported by those who once maintained formal authority to influence the course of action.²⁶

Another possible manifestation of institutional self-reinforcement is the FASB's evolved use of the framework, which is consistent with what organizational scholars term a "buffer" (Thompson 1967, 20). Buffering creates the appearance of rational decision-making and mitigates constituents' uncertainty about the quality and legitimacy of the standard-setting process (Elmore 2000). In doing so, a "logic of confidence" is created between standard-setters and their constituents, insulating them from excessive interference. The FASB's predecessor (the Accounting Principles Board, or APB) never completed a framework, despite such a document being an initial priority; perhaps as a

²⁵ In this study I have collected comment letter data through SFAS 160 (issued in December 2007). As such, for the entire period under study the sponsoring organizations retained formal authority to nominate Trustees of the FAF.

²⁶ The current conditions are ideal for institutional self-reinforcement to occur: under the rules in place since 2008, a Board of Trustees which has majority support to advance any particular agenda constitutes a sufficient condition for that agenda to be advanced in perpetuity.

result, they were highly criticized by the government and the financial press during their tenure (Zeff 1971). The FASB's institutional strength may stem in part because their evolved use of the CF has created a "logic of confidence." Importantly, this outcome could not be obtained without the FASB coalescing around a single explanation for the guidance provided within their framework.

Second, it is difficult to evaluate the benefits of a change to the standard-setting regime since there are limited alternative regimes against which the current system can be compared. That is, the available control group is small in size, provides little variation, and includes uncontrolled confounds (Madsen 2013). Third, even if the benefits of change exceed the costs, collective action problems are likely to be acute because (i) accounting standards are a public good (Olson 1965) and (ii) the causal chain between choices and results is extremely long (i.e., it would take many years for benefits to changes in the standard-setting regime to accrue to the constituents) (Pierson 2000b).

6.1.2 What are the consequences to ideological homogenization?

One effect of an ideologically homogeneous Board may be fewer compromises, particularly on first-order accounting issues (i.e. those that depend upon one's preference for the A&L or the R&E view). In 1971, the AAA described areas of dissatisfaction with the APB, one of which was that standards exhibited too much compromise, and they therefore lacked "coherence and logic" (AAA 1971, 612). Kirk (1989) describes how the sanctioning of the use of fair values in SFAC 5 was conditional on a compromise in which unrealized holding gains and losses would bypass conventional income (i.e. comprehensive income; FASB (1984)). Compromises now likely only take place on

second-order issues, which may provide a benefit via more internally consistent standards.

An additional criticism of the APB was that new standards were not established in a timely fashion, particularly on key matters (e.g. Chatov (1975)). Therefore, another potential benefit of an ideologically homogeneous Board is that they may promulgate key standards more quickly than an ideologically diverse Board. To bring initial evidence towards whether this is the case, I regress the *TimeLag* variable (which I use here as a proxy for how quickly a standard is promulgated) on the log of the number of comment letters submitted to the final ED relating to each SFAS (which I use a proxy for the level of importance of each standard), while measuring the *Pre-Post* split in a fashion similar to prior equations. The results (untabulated) are consistent with the FASB promulgating standards on key matters more quickly after the CF than before.

One potential cost of ideological homogeneity is that it places the Board at risk of falling victim to “groupthink,” which can lead to poor decision-making. Janis (1982) notes that the primary antecedent condition for groupthink is the degree of cohesiveness of the group, while ideological homogeneity is a secondary condition.²⁷ By all accounts the members and staff of the FASB are intelligent, hard-working, and highly motivated while working under demanding conditions. Indeed, because working for the FASB is demanding and attracts criticism, those who work for the organization are more likely to feel committed to the organizational mission, which may act to strengthen the cohesiveness of the group. Because of the significance of such a condition, research

²⁷ Janis (1982, 244) also provides the decision-making symptoms of an entity where groupthink is present. They include: an incomplete survey of alternatives; a failure to examine the risks of the preferred choice; a failure to reappraise initially rejected alternatives; and a selective bias in processing information at hand. Turner and Pratkanis (1998) caution that while groupthink theory is one of the most influential theories in the behavioral sciences, it has been the subject of relatively few empirical tests.

evaluating the FASB and its processes with respect to the Janis (1982) antecedent conditions and groupthink symptoms would be useful.

6.2 Conclusion

I seek to contribute to our understanding of the political economy of standard-setting by highlighting that institutional factors can play a significant role in shaping accounting standards. Additionally, to my knowledge this represents the initial empirical study into the activities of the FAF. Gore (1992, 143) has stated that the FAF is “truly a power behind the throne,” and additional research into their activities would be useful in order to better identify the extent to which the FAF, the FASB, and external political factors affect standard-setting outcomes. Finally, the theory of institutional change that I propose – the self-reinforcement of standard-setting institutions around the conceptual framework – may yield a number of testable implications in addition to those considered in this study. Indeed, additional work is necessary to more directly test the path dependence theory that I propose in this study. I leave further considerations about these matters for future research.

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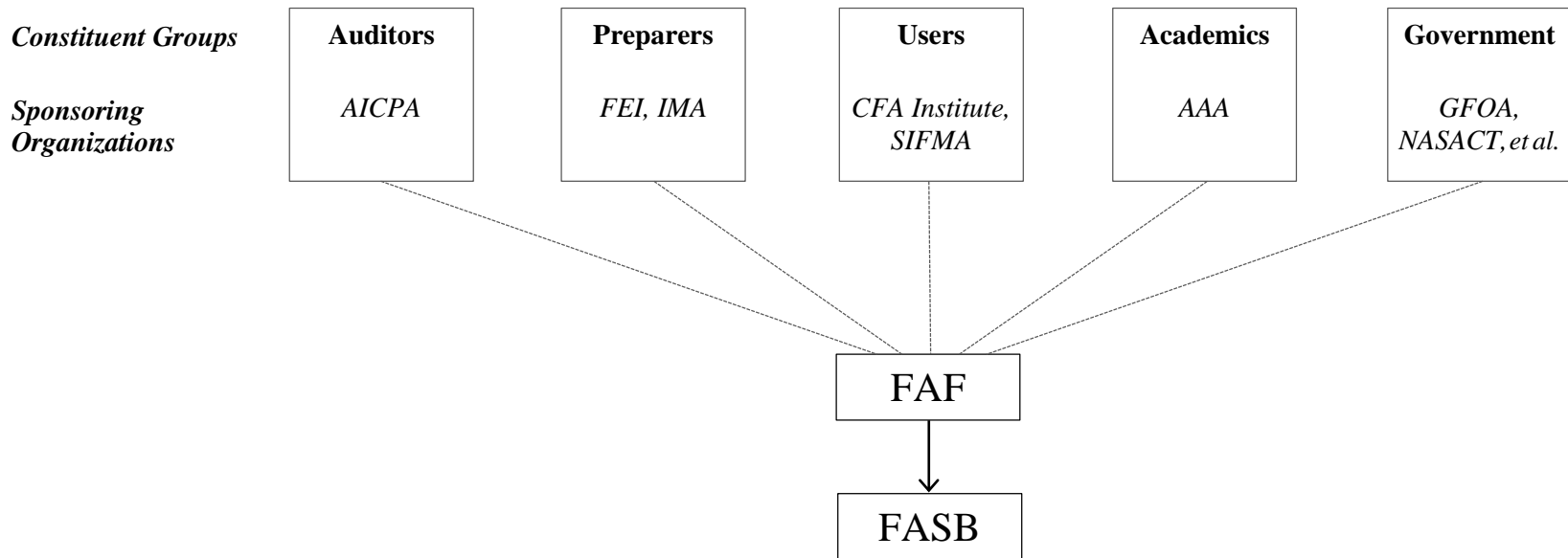
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APPENDIX 1. Links between frequently-used concepts[†]

Asset-and-Liability View		Revenue-and-Expense View
Assets and liabilities	<i>Conceptual Primacy</i>	Revenues and expenses
A measure of change in net economic resources of a business enterprise for a period; the “change in wealth”	<i>View on Earnings</i>	A direct measure of the effectiveness of an enterprise using its inputs to obtain and sell outputs; not necessarily limited to changes in wealth
Opposed; residue from matching procedures results in items on the balance sheet that lack economic interpretation (e.g. deferred charges)	<i>View on “Matching”</i>	In favor; proper matching/timing of expenses with revenues is necessary in order to avoid distortion to earnings
Views the measurement of assets and liabilities based on their economic substance as key; wealth must be properly measured since earnings is viewed as the change in wealth	<i>Economic Substance of Assets and Liabilities</i>	Views assets and liabilities that follow from the matching process as the necessary result of the proper measurement of periodic earnings, even if such assets and liabilities lack economic substance
Prefers use of certain departures from historical cost measurement (e.g. fair value) which more closely approximate the economic substance of assets and liabilities due to the relevance of the information for investors and creditors; believes such measures are at least as reliable as some other well-accepted measurement types	<i>View on Relevance and Reliability vis-à-vis Historical Cost Departures</i>	Opposes departures from historical cost measurement (e.g. fair value) in certain instances due to the poor reliability of such figures

[†] The primary source for this Appendix is FASB (1976). Other sources include Barth (2006), Dichev (2008), Johnson (2005), and Storey and Storey (1998).

APPENDIX 2. Relationship between the FASB, FAF, sponsoring organizations, and standard-setting constituent groups



The above figure illustrates the relationship between standard-setting constituent groups, their sponsoring organizations, the FAF, and the FASB. There are five non-mutually exclusive standard-setting constituent groups: auditors, financial statement preparers, financial statement users (e.g. investors), accounting academics, and government regulators. Historically, these constituent groups have had representation in the standard-setting process via their sponsoring organizations, who nominated individuals to be Trustees of the FAF. On the next page I provide greater detail regarding this process, outline historical changes to the formal authority of these sponsoring organizations, and identify the number of Trustees each sponsoring organization has been eligible to nominate over the course of the FAF's existence.

Full names of the sponsoring organizations that are referred to in shorthand notation above are as follows: AICPA (American Institute of Certified Public Accountants), FEI (Financial Executives Institute), IMA (Institute of Management Accountants; formerly named NAA – National Association of Accountants), SIFMA (Securities Industry and Financial Markets Association; formerly named SIA – Securities Industry Association), AAA (American Accounting Association), GFOA (Government Finance Officers Association), and NASACT (National Association of State Auditors, Comptrollers and Treasurers). The CFA Institute was formerly named AIMR (Association for Investment Management and Research), and is a successor organization to the Financial Analysts Federation. The Government constituency is represented by a number of sponsoring organizations in addition to GFOA and NASACT; because of space considerations I do not reproduce the full list here.

I requested the FAF to provide me with their historical by-laws, and they provided 12 such documents from the Public Record. The effective dates of these documents cover all periods from 1/1/1978 to the present (as such, I am uncertain as to the specific rules in place from 1973-1977). Further, the current by-laws (FAF 2013) and Certificate of Incorporation (FAF 2009) are available on-line. The information below regarding the selection of members of the FAF's Board of Trustees is compiled from these documents.

As of 1978, each sponsoring organization nominated Trustees, who were formally elected (by simple majority) at a meeting of the “members of the Foundation” (referred to as the “Electors”). While the 1978 by-laws did not define these Electors, the 1987 by-laws describe the Electors as consisting of members of the sponsoring organizations – a group independent from the Board of Trustees. This description of the electors is also independently confirmed by Miller et al. (1994), and it is consistent with the recommendations of the ‘Wheat Report’ (AICPA 1972) (recommendations from the Wheat Report form the basis of the structure of U.S. standard-setting institutions). As such, from 1978 through 1986 it appears that all Trustees were directly nominated by each individual sponsoring organization and then elected by a group comprised of members from all of the organizations.

In 1987, three “at-large” Trustees were added to the FAF Board. While the process of selecting the nominated Trustees remained the same – individually nominated and collectively elected by the sponsoring organizations – the at-large Trustees were elected directly by the FAF Board of Trustees (by simple majority).

In 2002, the process of selecting the nominated Trustees changed for every constituent group except for the Government group (who continued to individually nominate and then collectively elect its three Trustees). For the 13 Trustees relating to the remaining constituent groups: the sponsoring organizations now nominated “up to two” prospective Trustees for each position allocated to them, but the Trustees were now elected by the existing FAF Board of Trustees (by a simple majority) rather than by the sponsoring organizations themselves via a separate group of Electors.

The formal authority of the non-Government sponsoring organizations ended in 2008. The FAF’s press release announcing changes to their governance structure stated that the changes will (FAF 2008): “Expand the number and breadth of investors, accounting, business, financial and government organizations and entities invited to nominate FAF Trustees with the understanding that final authority for all appointments rests solely with the discretion of the Board of Trustees.” The selection process for the three Government Trustees remained the same, while all other Trustees were converted to “at-large” positions. Per review of the current by-laws and Certificate of Incorporation, the selection of new Trustees to replace outgoing (term-limited) Trustees is now made solely by existing FAF Trustees. Further, the by-laws note that, in addition to seeking nominations from constituents, the Trustees may make their own nominations for at-large Trustee positions.

The Table below provides changes to the number of Trustees nominated by each sponsoring organization over the FAF's existence.

Organization	1978–1986	1987–2002	2002–2008	2008–present
AICPA	5 Trustees*	4 Trustees	3 Trustees	–
FEI	2 Trustees	2 Trustees	1 Trustee	–
IMA†	1 Trustee	1 Trustee	1 Trustee	–
CFA Institute†	1 Trustee	1 Trustee	1 Trustee	–
SIFMA†	1 Trustee	1 Trustee	1 Trustee	–
AAA	1 Trustee	1 Trustee	1 Trustee	–
Gov't orgs (various)	–	3 Trustees	3 Trustees	3 Trustees
At-large (unaffiliated)	–	3 Trustees	5 Trustees	11–15 Trustees
TOTAL	11 Trustees	16 Trustees	16 Trustees	14–18 Trustees

† Current organizational names; includes predecessor organizations and prior organizational names

* Includes the AICPA President, who served on the FAF Board of Trustees *ex officio*

APPENDIX 3. Excerpts from comment letters to SFAC 3 that reference the A&L view or the R&E view

CL #	Page #	Respondent Name	Respondent Constituency	Excerpt(s) from comment letter [emphasis added]
13	170	National Association of Accountants	Preparer	In our response to the original exposure draft, our Committee commented on what we <i>perceived to be a subtle bias in favor</i> of the so-called "asset/liability" view over the "revenue/expense" view. We continue to feel similarly about the current version. The emphasis again <i>seems to be</i> on a balance sheet approach.
18	185	C.E. Noland, Assistant Comptroller, E.I. du Pont de Nemours & Company ("DuPont")	Preparer	<p>The attractions of the "asset/liability" approach, with its attendant focus on balance sheet values, apparently are that it facilitates the preparation of accounting standards, it is perceived to prevent "income smoothing", and it simplifies the attest function. In our view, however, these objectives are achieved at too high a price, because they will preclude the most relevant assignment of costs and revenues to appropriate time periods. The primacy of the income statement is acknowledged in paragraph 8 which states that, "Information about an enterprise's performance provided by accrual accounting is the primary focus of financial reporting. Investors ... are likely to be most interested in revenues, expenses, gains, and losses."</p> <p><i>We find it anomalous that the ED recognizes the overriding importance of accrual accounting but nevertheless would impose further sanctions against its use. We once again urge the Board to reconsider its position on this matter in the interest of providing information to investors and creditors that is most useful in making business and economic decisions.</i></p>
19	189	Robert N. Anthony, Harvard University	Academic	<p>My second suggestion is that the document be made internally consistent. Specifically, <i>it should adopt either the asset/liability view or the revenue/expense view</i>, rather than attempting to incorporate aspects of both views.</p> <p>Issue No. 1 of the 1976 Discussion Memorandum asked respondents to comment on these two approaches. An overwhelming majority of the 300 responses favored the revenue/expense approach. Nevertheless, <i>the Board seems to have adopted the asset/liability approach, even though it does not specifically say so.</i> By far the larger proportion of the Exposure Draft contains remarks about assets and liabilities, and comprehensive income is defined as an increase in net assets. If the Board had stopped there, the result would be at least a consistent structure, albeit, in my view, a less satisfactory structure than the alternative.</p>

				<p>Although the definitions of the elements were framed in asset/liability terms, the Exposure Draft also discusses the ideas of accruals, deferrals, realization, and matching. It says (Paragraph 78) that the goal of these procedures is "to relate revenues, expenses, gains, and losses to periods." This is a revenue/expense approach; it has nothing to do directly with the measurement of assets and liabilities. Such a discussion leads to <i>confusion</i>.</p>
21	204	I.C. McCutcheon, Controller, Royal Dutch/Shell Group of Companies	Preparer	<p>Unlike the Discussion Memorandum, the Exposure Draft does not refer to the Asset and Liability view or the Revenue and Expense view as concepts underlying the definition of earnings, although <i>the impression is given</i> that the Asset and Liability view has been adopted. We expressed our view on this matter in our letter dated 7th April 1978 on the previous Exposure Draft concerning 'Elements of Financial Statements'. We trust that it remains the intention of the Board to deal with this question in due course; however, the <i>absence of a clear preference</i> need not be regarded as an impediment to the issue of the proposed statement.</p>
25	215	Deloitte, Haskins & Sells	Auditor	<p>Respondents to the 1977 Exposure Draft generally were critical of those that had responded to the first pivotal issue, one study determined that respondents favored the revenue and expense view by over 11 to 1 (Boynton, Brown and Shenkir). Also, severe inflation and strong pressure from the SEC have served to force reconsideration of the basic accounting model. It is not surprising, therefore, that <i>the revised Exposure Draft has retreated from strong positions</i> previously advocated in the 1977 Exposure Draft.</p>
28	229	Clifford H. Whitcomb, SVP and Comptroller, The Prudential Insurance Company of America	Preparer	<p>We repeat our comments to the initial exposure draft that the asset/liability view, revenue/expense view and the nonarticulated view of financial reporting are not mutually exclusive. Even though the Board did not state which view it has adopted, it <i>may be construed</i> that it opted for the asset/liability view.</p>
42	268	H. Jim Snavely, Professor, University of Texas-Arlington	Academic	<p>In this latter exposure draft, the Board continues to support the "asset/liability view" of earnings, but it introduces <i>new terminology which further confuses the matter</i>.</p> <p>While, at first blush, it may appear that the FASB was suggesting the adoption of a "revenue/expense view" of earnings, such was not the case. The FASB was suggesting that earnings results from a change in net assets. This latter conclusion</p>

flows from the fact that although earnings was said to equal "revenues - expenses + gains - losses," each of those items (revenues, expenses, gains, and losses) was defined in terms of changes in net assets. Thus, the FASB was selecting the "asset/liability view" of earnings.

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|----|-----|---|----------|---|
| 46 | 296 | Bruce A. Beery,
EVP, NCNB
Corporation | Preparer | <p>We support the overall position expressed in this ED. Our principal objection to the previous ED on elements of financial statements was that it was ambiguous. Many key questions as to what would or would not be considered an element were left unanswered. In addition, although ambiguous, we felt that the original ED showed a bias towards the asset/liability or "current value" concept which we strongly oppose.</p> |
| 50 | 307 | Thomas P. Nelson,
VP, General Mills,
Inc. | Preparer | <p>The avowed FASB intent to defer decisions on measurement and recognition issues is inconsistent with adoption of a wealth-based earnings concept. <i>In spite of the draft's stated denials</i>, logical development of the concept would require:</p> <ul style="list-style-type: none"> a. Some form of "current" value. "Comprehensive income" is defined in terms of changes in wealth; net "probable future economic benefits." How can past values measure future economic benefits, except by accident? b. The rejection of transactions as the basis for recognition of "comprehensive income." All events and circumstances affecting the enterprise also affect "comprehensive income," making transactions irrelevant to its measurement. c. A loss of objectivity in financial reports. "Expected future benefits" are not available for observation today. Suggested surrogates, such as "comparable" values, value if sold, cost avoided, etc., require assessment of conditions which don't, won't, or can't exist. <p>Development along these lines could be disastrous. Existing accounting techniques could be largely replaced by appraisal techniques relevant to the measurement of economic wealth, but with little operating or investment significance. Reliability of reporting numbers is likely to fall dramatically due to the "what if" evaluations required. If reported results continue to be among the goals of business operating strategies, business operations themselves may be transformed.</p> <p>We urge rejection of the proposed "asset/liability" approach to element definition as unworkable and unrealistic.</p> |

56	346	Alexander Grant & Company (Member firm, Grant Thornton International)	Auditor	In short, because the definitions of elements of financial statements set out in the exposure draft have been constructed before and independently of the basic accounting concepts which will largely determine the content of those elements, they are largely semantic in nature--that is, they are <i>generalized, vague,</i> and provide no appreciable guidance in their application to practical situations. (The definitions do, however, <i>seem to lean towards</i> the "asset/liability" approach as opposed to the "revenue/expense" approach.)
60	357	Price Waterhouse & Co.	Auditor	We note with approval the Board's movement away from the extremes of both the "asset and liability view" and the "revenue and expense view" in favor of a framework that <i>incorporates desirable features of both views</i> : rigorous definitions of the key elements; emphasis on accrual-basis performance determined by assigning revenues and expenses to appropriate periods.
62	365	B.D. Johnson, VP and Controller, Virginia Electric and Power Company	Preparer	The December 1976 Conceptual Framework Discussion Memorandum expressed two views of income (revenue/expense view and asset/liability view), and the exposure draft <i>appears to favor</i> the asset and liability view with the inclusion of comprehensive income. It is the Company's position that the revenue and expense view is more appropriate since it lends itself to the ratemaking concept of matching revenues with expenses.
65	372	Hans G. Storr, VP and CFO, Philip Morris Incorporated	Preparer	<p>Issue One of that document identified the need for a basis underlying a conceptual framework; essentially it indicated that a choice between the Asset/ Liability view and the Revenue/Expense view had to be made. Yet nowhere in the revised exposure draft is the underlying basis articulated in such terms.</p> <p><i>In fact, it appears that the Board cannot decide as to the supremacy of one viewpoint over the other.</i> Its indecisiveness may be indicative that these viewpoints are actually compatible with each other and not mutually exclusive. This would explain the Board's action to defer so many important decisions to the conceptual statement on accounting recognition. However, it does not explain why the Board has not communicated such intentions. Accordingly, this matter should be addressed in any statement on the elements of financial statements that is adopted.</p>

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|----|-----|--|----------|--|
| 67 | 378 | William McCollam, Jr.,
President, Edison Electric Institute | Preparer | <p>The proposed definitions of elements of financial statements <i>appear to be consistent with either</i> the asset and liability view of the revenue or expense view of income which were the two opposite concepts presented in the Board's original conceptual framework Discussion Memorandum. Additionally, the proposed definitions are conceptually consistent with either historical cost measurement or a current cost methodology.</p> |
| 74 | 392 | Carl W. Greene,
Consolidated Edison Company of New York, Inc.
<i>(title not legible)</i> | Preparer | <p>Our reading of this revised Exposure Draft (ED) indicates that <i>the FASB seems to have struck a balance between the Asset/Liability view and Revenue/Expense view</i>. Many of the comments received by the FASB in response to the first ED on elements, including our own, were concerned with the FASB' s apparent disposition towards the Asset/Liability view, and the implication of such on the inclusion of certain assets and liabilities in the elements framework. In paragraph 108 and 128 of Appendix B to the ED, the FASB has sought to alleviate these fears.</p> |
| 80 | 404 | W.E. Hoglund,
Controller, General Motors Corporation | Preparer | <p>It seems evident to us that by introducing the "comprehensive income" concept ... coupled with the ambiguity toward the concept of capital maintenance ... the Board has reaffirmed a bias towards the asset/liability view of income measurement and places the traditional accounting model in jeopardy in spite of reassurances that the definition will not, "... require nor presage upheavals in present practice."</p> <p>Of course, all of the preceding are only inferences since <i>the exposure draft is so broad and ambiguous</i>, particularly with regard to the key concept of capital maintenance, that <i>we cannot be sure what position, if any, is being established by this exposure draft</i>.</p> <p>To sum up, we believe ... the Board should suspend the publication of any concepts statement on elements until agreement is reached on the asset/liability versus matching costs/revenues concept as well as the concept of capital maintenance.</p> |

89	440	National Electrical Manufacturers Association	Preparer	The paragraphs on accrual accounting recognition, matching and allocation (70-83) by themselves ring true. We believe revenues and expenses can and should be matched. Hopefully, the Board will persist in the concepts set forth in paragraphs 70 through 83. In discussing accrual accounting and then recognition, matching and allocation, the Exposure Draft appears to support the matching of costs and revenues. Yet, other parts of the Exposure Draft seem to be supporting what the Board has earlier called the asset/liability view. Having raised this issue, <i>the Board should not leave unclear what resolution, if any, they intend.</i>
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Comment letters in Appendix 3 were identified by searching the comment letters to the final ED for SFAC 3 (“Elements of Financial Statements of Business Enterprises (Revised)”) for the following combinations of text: “asset and”, “asset”, “liability view”, and “liability approach”. Additional combinations were utilized but not identify any additional (i.e. unique) comment letters. The search parameters yielded the 17 comment letters listed in Appendix 3, out of the entire population of 93 letters; every letter that met the search criteria is included above. Due to the use of finite search combinations and inherent imperfections in digitally extracting and reading text from hard copy documents, it is possible that this procedure did not identify every comment letter that discussed the competing asset-and-liability and revenue-and-expense approaches. The page number listed above is the first page of each comment letter per the FASB Public Record (FASB File Reference No. 1004-019); the first comment letter starts on page 123. All emphasis included within the excerpts is mine.

APPENDIX 4. Detail on categorization of comment letters

Appendix 4 provides a description of the coding process used to categorize comment letter positions. I operationalize the position of a constituent group j as the average of the position taken by the group's sponsoring organizations m in comment letters to the final Exposure Draft related to each Statement. The sponsoring organizations for each constituent group are: AICPA (Auditors), FEI and IMA (Preparers), CFA Institute and SIFMA (Users), and the AAA (Academics). As noted, the average is used, so if the FEI and IMA both submitted comment letters on an Exposure Draft relating to a given Statement, the position of the preparer constituency will be the average of the positions taken by the FEI and IMA in their letters.

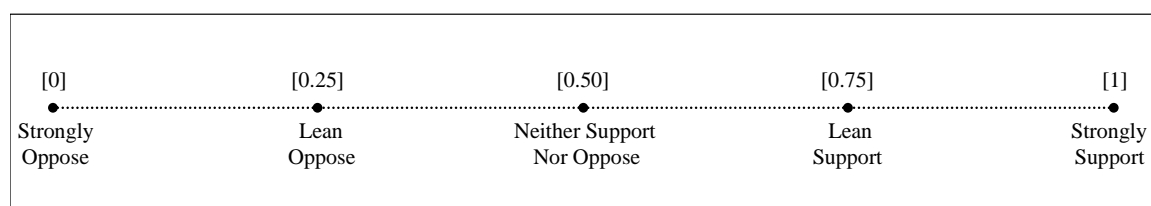
Independent coder

In order to validate the *POS* values that I initially coded, a research assistant (RA) independently coded each comment letter based upon a random order of Statements. The RA was provided the instructions below (i.e., the sections "Instructions to RA", "Coding rubric", and "Detailed instructions"), which describe the comment letter categorization process. The RA is a former accounting PhD student who has not been informed about the topic or objectives of this study.

The weighted kappa (inter-coder reliability) between the two sets of codes was 0.64. Further, 95% of the codes (502 out of 528) either named the identical category or were within one adjacent category.

Instructions to RA

Your task is to code constituent positions to Exposure Drafts (EDs) based upon whether the letter opposes or supports the related ED (per the descriptions provided on the following scale). You will do this by reading constituent comment letters (CLs) and using the coding rubric and detailed instructions included below to place each comment letter into one of the five categories shown below. The values provided above the scale indicate the value for the descriptive category you choose:



Coding rubric

- Strongly Support:** The position in the CL either unequivocally supports the ED, or it supports the ED but disagrees with an immaterial portion, recommends minor revisions, or requests minor clarifications.
- Lean Support:** The position in the CL generally supports the ED, but opposes some material portion, recommends material revision, or requests significant clarification.

Neither Support nor Oppose:	The position in the CL neither supports nor opposes the ED; it supports some elements of the ED but fundamentally disagrees with other elements.
Lean Oppose:	The position in the CL generally opposes the ED, but supports some material portion.
Strongly Oppose:	The position in the CL either unequivocally opposes the ED or only supports immaterial portions.

Detailed instructions

- The letter is assumed to support all portions of the standard to which it does not claim a position. That is, assume that the only material objections they have to the ED are those explicitly stated within the letter.
- Disagreements with key elements/changes of the ED carry more weight than disagreements with less material elements.
- **It is crucial that you understand what changes the standard is proposing in order to understand the materiality of the objections in the comment letter.** Referring back to the summary page of each ED will help identify its most significant elements.
- Focus on the substantive content of the letter (i.e. what elements the letter supports or opposes) rather than the tone of the writing. For example, no matter how strongly worded a letter is, if it supports some material portion of the ED than it cannot be coded as a “strongly oppose”.
- Opposition based on disagreement over an accounting procedure carries more weight than opposition based on scope grounds (e.g. the Board needs to conclude on other issues first, the issue requires greater research to determine appropriateness of policies, etc.).
- When a CL is responding to more than one ED, code only the portion of the CL response that deals with the relevant ED. More broadly, a CL may make comments on items not directly related to what the ED has proposed, and it is important to consider only the position of the CL relating to the ED and not those that relate to ancillary items.
- You must choose one of the five options above. If a certain CL is particularly difficult to classify, make a note in the Excel file, move on, and revisit the CL at a later time.
- After coding each comment letter for a given Statement, take a quick look at the values for each group and reconsider whether the values fairly represent the relative position taken by each organization on the ED. In doing so, however, no changes should be made that would adversely affect the comparability of coding data across EDs.

Excerpts of comment letters by categorized constituent position

Strongly Support ($POS_m = 1$)

“Having considered the proposed Statement, we do not find any substantive disagreement with the amendments as presented.”

“It is particularly gratifying that the Committee finds itself in complete agreement with the principles and proposals contained in the Exposure Draft.”

“We feel that this ... proposed Statement ... is fundamentally sound and should be adopted as an SFAS.”

“The revised draft is responsive to the concerns we expressed on the original draft, therefore, we endorse the issuance of this exposure draft as a Statement of Financial Accounting Standards.”

Lean Support ($POS_m = 0.75$)

“[The Committee] supports the proposed statement. However, [the Committee] believes there are important issues that should be addressed prior to issuance of this amendment.”

“We generally support what we believe to be the Board’s intent... However, we believe the exposure draft needs substantial clarification and expansion if it is to produce the results the Board apparently seeks.”

“Despite some concerns as to implementation and usefulness, as noted in this letter, the Committee is pleased to support the proposal.”

Neither Support Nor Oppose ($POS_m = 0.5$)

“[The Committee] continues to have concerns about the ED, however, and would support its issuance as a final Statement only if [the Committee] substantive comments and recommendations, as discussed below, are adequately addressed.”

“With respect to the ED ... [the Committee] has mixed views and thus requests further study.

....

While [the Committee] is supportive of the Board's effort ... we believe that questions surrounding the effect of the proposed change suggest that further research and consultation is necessary.”

“Our review of the standard and explanatory material as recently released has produced mixed views among our members as to technical validity of the new rules, and a strong majority view as to concerns over the due process and implementation requirements involved. Roughly a third of our members are prepared to accept the new standard in its present form, although some of these companies believe that additional time will be needed for satisfactory implementation. Another third of our membership could accept the new standard only if certain changes - in many cases significant changes – were made. The final third believe strongly that the standard as a whole is seriously flawed and unsuitable even to form the basis for a new set of rules.”

Lean Oppose ($POS_m = 0.25$)

“We support the Board’s efforts to provide guidance in this matter, but we disagree with the exposure draft’s principal conclusion.... As described in the following paragraphs, we do not support issuance of a final statement without revision....”

“We believe that the questions raised at the end of the conceptual section of this response are so important that the final standard should not be issued until they are resolved.”

“The majority of the committee believes that the proposed amendment creates more problems than it solves and therefore either should not be issued at all or should not be issued in its present form.

....

In reviewing the letter prepared by the committee, [the Committee] agreed by a slight majority that the proposed amendment should not be issued. However, [the Committee] also agreed by a similar majority that, if the proposed amendment is issued, the Board should adopt....”

Strongly Oppose ($POS_m = 0$)

“In summary, our members strongly oppose issuance of this Statement.”

“The Committee opposes the adoption of the proposed amendment which would represent, in our opinion, a step backwards in the development of accounting principles.”

“After careful review, the Committee was unable to find any aspect of financial reporting that would be improved by adoption of either of these proposals. Moreover, the FASB has failed to provide compelling reasons why the issues these EDs purport to solve have not already been satisfactorily addressed by existing GAAP. We therefore respectfully request that both of these projects be dropped from the Board's agenda.”

“In summary, it appears to us that the Board has not explored the implications, ramifications and variable situations of these proposals. We believe the Board should reconsider this proposal.”

APPENDIX 5. Partition of population into combinations of FASB members

#	Tenure	Chair	Member	Member	Member	Member	Member	Member
1	SFAS 1-12	Armstrong	Queenan ^a Gellein ^a	Litke	Mays	Kirk	Sprouse	Schuetze
2	SFAS 13-20	Armstrong	Gellein	Litke	Mays	Kirk	Sprouse	<i>Vacant</i> ^b Walters ^b
3	SFAS 21-25	Kirk	Gellein ^c <i>Vacant</i> ^c	March	Morgan	Mosso	Sprouse	Walters
4	SFAS 26-71	Kirk	Block	March	Morgan	Mosso	Sprouse	Walters
5	SFAS 72-78	Kirk	Block	March	Brown	Mosso	Sprouse	Walters
6	SFAS 79-88	Kirk	Block	March ^d Wyatt ^d	Brown	Mosso	Sprouse	Lauver
7	SFAS 89-97	Kirk ^e Beresford ^e	Northrop	Wyatt ^f Leisenring ^f	Brown	Mosso	Swieringa	Lauver
8	SFAS 98-106	Beresford	Northrop	Leisenring	Brown	Sampson	Swieringa	Lauver
9	SFAS 107-117	Beresford	Anania	Leisenring	Brown	Sampson	Swieringa	<i>Vacant</i> ^g Northcutt ^g
10	SFAS 118-125	Beresford	Anania	Leisenring	Cope	Foster	Swieringa	Northcutt
11	SFAS 126-131	Beresford	Anania	Leisenring	Cope	Foster	Larson	Mueller
12	SFAS 132-137	Jenkins	Anania	Leisenring	Cope	Foster	Larson	Mueller
13	SFAS 138-143	Jenkins	Trott	Leisenring ^h Crooch ^h	Cope ⁱ <i>Vacant</i> ⁱ	Foster	Larson	Mueller
14	SFAS 144-150	Jenkins ^k Herz ^k	Trott	Crooch	<i>Vacant</i> ^j Schipper ^j	Foster	Schieneman	Wulff
15	SFAS 132R-123R	Herz	Trott	Crooch	Schipper	Batavick	Schieneman	Seidman
16	SFAS 154-159	Herz	Trott	Crooch	Schipper ^l Linsmeier ^l	Batavick	Young	Seidman
17	SFAS 141R-163	Herz	Smith	Crooch	Linsmeier	Batavick	Young	Seidman
18	SFAS 164- ASU 2010-26	Herz	Smith	Siegel	Linsmeier	<i>Vacant</i>	<i>Vacant</i>	Seidman
19	ASU 2010-27- 2012-02	Seidman	Smith	Siegel	Linsmeier	<i>Vacant</i> ^m Buck ^m	<i>Vacant</i> ^m Schroeder ^m	Golden

Appendix 5 provides the population of Statements partitioned into those produced by unique combinations of FASB members. As aggregate voting data for each Statement is produced by a combination of members, I categorize unique “combinations” in order to utilize appropriate fixed effects. To achieve an appropriate balance of combinations and total Statements (and to avoid combinations responsible for a very small number of Statements), I require a combination to have at least five associated Statements. Therefore, combinations were identified by starting at SFAS 1 and changing combinations at every change in membership after the fifth Statement attributed to each combination.

- a Gellein replaced Queenan subsequent to the issuance of SFAS 3
- b Walters filled a vacated position prior to the issuance of SFAS 15
- c Gellein vacated his position subsequent to the issuance SFAS 24
- d Wyatt replaced March subsequent to the issuance of SFAS 82
- e Beresford replaced Kirk subsequent to the issuance of SFAS 91
- f Leisenring replaced Wyatt subsequent to the issuance of SFAS 93
- g Northcutt filled a vacated position prior to the issuance of SFAS 110
- h Crooch replaced Leisenring subsequent to the issuance of SFAS 139
- i Cope vacated his position subsequent to the issuance of SFAS 140
- j Schipper filled a vacated position prior to the issuance of SFAS 145
- k Herz replaced Jenkins subsequent to the issuance of SFAS 146
- l Linsmeier replaced Schipper subsequent to the issuance of SFAS 156
- m Buck and Schroeder filled vacated positions prior to the issuance of ASU 2011-01

APPENDIX 6. Detail on categorization of FASB members' dissenting arguments

At the end of each Statement, FASB members who dissent to the issuance of the Statement provide an explanation for their dissent. I collected the explanations for all Statements, from SFAS 1 through ASU 2012-02. These explanations are analogous to dissenting opinions on legal cases (e.g. by Supreme Court justices) but are relatively brief – on Statements where there is a dissent, the total written explanation averages 581 words. As more than one reason was often provided within a single explanation, I manually divided each explanation into distinct dissenting arguments. Where more than one member dissented on a Statement, they often “co-authored” on one or more arguments. The 168 dissents provided 243 arguments and 369 member-arguments (which counts an argument x times if it was co-signed by x members).

I read every dissenting argument (based upon a random order of Statements) and coded each one within the 21 argument types (and 3 categories) included in the table on the following page. Specific care was given to the placement of arguments into one of the three broad categories – that is, to indicate the severity of the disagreement as best as possible. Instances where a dissenting argument may have been a close descriptive fit for an argument type within the Secondary Disagreement category (e.g. disagreeing with the timing of recognition) but that were perceived to be a strong, fundamental point of disagreement for the author(s) (rather than a secondary one) were placed into one of the “Fundamental Disagreement” argument types (e.g. disagreeing with the primary objective of the Statement). The coding for the dissent to SFAS 92 is included in this Appendix in order to provide an example of the determinations made through this process.

The coding process was then replicated by a research assistant (RA) who was given instructions qualitatively similar to those above. The RA was not provided with the initial coding decisions but was provided with the division of explanations into arguments (and was also instructed to reconsider these determinations and make adjustments if deemed necessary). After the arguments were coded by the RA, I reconciled the two sets of codes and returned to the RA those arguments on which there was a disagreement of argument type between my coding and theirs. The Cohen's Kappa for the initial agreement of argument type (argument category) was 0.43 (0.55). The RA then reconsidered the coding for the arguments on which there was an initial disagreement and made the final determination as to the appropriate argument type. The RA is an accounting PhD student and licensed CPA who was not informed about the topic or objectives of this study while performing this work.

#	Brief explanation of argument type	Category
1	Contrary to preferred accounting concepts (e.g. conservatism, historical cost, comparability, consistency, entity basis of accounting, accrual accounting, relevance, reliability)	Fundamental Disagreement
2	Disagree with the stated objective (or primary objective) of the Statement	Fundamental Disagreement
3	Prefer lesser use of current costs or fair values	Fundamental Disagreement
4	Prefer greater use of current costs or fair values	Fundamental Disagreement
5	Prefer to restrict preparers' latitude (e.g. limit accounting choice so similar circumstances are accounted for similarly and different circumstances are accounted for differently)	Fundamental Disagreement
6	Prefer to provide greater latitude to financial statement preparers (e.g. fewer rules, prescriptive detail)	Fundamental Disagreement
7	Proposed accounting is inconsistent with economic substance	Fundamental Disagreement
8	Disagrees with a portion of the Statement, exception(s) carved out within the Statement, exclusion(s) provided within the Statement, or definition(s) provided within the Statement	Secondary Disagreement
9	Prefers to supplement the Statement (e.g. to create an additional rule or carve out an additional exception)	Secondary Disagreement
10	Disagrees with timing of recognition (e.g. prefers immediate recognition rather than deferral)	Secondary Disagreement
11	Prefers different classification for transactions	Secondary Disagreement
12	Prefers disclosure rather than recognition (or recognition rather than disclosure)	Secondary Disagreement
13	Inconsistent with existing GAAP	Secondary Disagreement
14	Internally inconsistent	Secondary Disagreement
15	Statement (or components of the Statement) deviate from the stated objective	Secondary Disagreement
16	Information not useful to decision-makers/costs of the Statement outweigh its benefits	Secondary Disagreement
17	Believes Statement (or element(s) of the Statement) is unnecessary	Secondary Disagreement
18	Statement deemed inappropriate on scope grounds (e.g. Board needs to conclude on other issues first, the issue requires greater research to determine appropriateness of policies, etc.)	Miscellaneous
19	Concerned about economic consequences of Statement (i.e. that changes in reported profits caused by changes in accounting rules will affect the firm's decisions on transactions and/or will impact reactions by investors and others)	Miscellaneous
20	Diverges from IFRS	Miscellaneous
21	Implementation difficulties (e.g. for preparers to implement or for auditors to audit)	Miscellaneous

Example of coding process – Dissent on SFAS 92 “Regulated Enterprises – Accounting for Phase-in Plans (an Amendment of FASB Statement No. 71)”

There was one dissent to SFAS 92, by Raymond Lauver. His dissent is included in full below, and is divided into three dissenting arguments. The coding decision on each argument is included beneath the dissenting explanation.

- 1 { Mr. Lauver dissents from the issuance of this Statement because it permits including in income an imputed allowance for earnings on shareholders' investment during a phase-in period. He believes that accounting is inappropriate on conceptual grounds because the allowance should be included in income only at the time it is a component of prices charged to customers for services.
- 2 { Further, he believes it is unwise policy, in the present environment, to authorize special accounting during a phase-in period. Phase-in plans are instigated because rates that would otherwise be charged are unacceptable to customers. Whatever might have been the case in a prior era, evidence now abounds, in the form of disallowances, temporary or indefinite omission of costs from rate base, competition, actual and planned deregulation, and inability to earn allowed rates of return, that the relationship between present costs and future revenues is too tenuous to warrant accounting predicated on the assumption that the marketplace will accept charges tomorrow that it finds unacceptable today.
- 3 { Mr. Lauver also dissents to the issuance of this Statement because it does not require elimination from balance sheets of certain amounts capitalized as an allowance for earnings on shareholders' investment even though not in compliance with unambiguous provisions of Statement 71 that have been reiterated in this Statement and even though inconsistent with the accounting required for nonqualifying phase-in plans. He believes it is unwise policy to grant an amnesty-like approval of accounting that was determined to be inappropriate in both Statement 71 and this Statement.

Argument 1: Contrary to preferred accounting concepts (e.g. conservatism, historical cost, comparability, consistency, entity basis of accounting, accrual accounting, relevance, reliability)

Argument 2: Disagree with the stated objective (or primary objective) of the Statement

Argument 3: Inconsistent with existing GAAP

APPENDIX 7. Text of dissenting arguments identified as post-CF “inside dissent”

This Appendix includes all dissenting arguments included in column 6 of Table 9, Panel B (i.e. post-CF “inside dissent”). References to names of individual dissenting authors (as well as individual personal pronouns) have been removed and replaced with numbers which represent each FASB member.

SFAS 114 Accounting by Creditors for Impairment of a Loan (an amendment of FASB Statement No. 5 and 15)

Authors: Member 2, Member 4

“[Members 4 and 2] disagree with the measurement of impaired loans required by paragraphs 13 and 14 of this Statement. They believe that if a loan is impaired, a new direct measurement of the loan at fair value should be recognized. That fair value should be measured by the market value of the loan or similar asset if an active market exists. If no market value is readily available, a creditor should use a forecast of expected future cash flows to estimate the fair value of the impaired loan, provided that those cash flows are discounted at a rate or rates commensurate with the risk involved.

[Members 4 and 2] disagree that this Statement has improved the information provided to users about impaired loans by eliminating inconsistencies in the accounting for those loans by different types of creditors for similar loans (paragraph 33). Paragraph 13 permits three different measures of impairment to be used by a given creditor for similar loans. The measures based on an observable market price of the loan or the fair value of the collateral of an impaired collateral-dependent loan are inconsistent with the Board's objective to measure only the loss due to credit deterioration (paragraph 51). Those two measurements reflect changes in market rates of interest or other factors that may cause a change in the fair value of an impaired loan. [Members 4 and 2] believe that a fair value objective or notion should underlie the measurement of all loan impairments. An impaired loan is a risky asset. Not only are expected future cash flows likely to differ from contractual amounts, there is risk that they will differ from actual future cash flows, in some cases dramatically. They believe that measuring that risky asset at its fair value provides the most relevant information about expected future cash flows and the riskiness of those cash flows.

....

[Members 4 and 2] disagree with the Board's conclusions about a troubled debt restructuring involving a modification of terms as defined in paragraph 5(c) of Statement 15. They believe that if a troubled loan is formally restructured, the terms of the original loan agreement and the loan's historical effective interest rate cease to be relevant and that the loan should be remeasured at fair value to reflect the risk characteristics of the loan and the market conditions at the time of the restructuring.”

[Ed: this was coded as two distinct arguments. The first two paragraphs represent argument #1 for the Statement, while the third paragraph represents argument #3. In order to avoid double-counting – which would potentially distort the results of Hypothesis 4 – the latter argument was included in the “Fundamental Disagreement” category within Panel B of Table 9.]

SFAS 115 Accounting for Certain Investments in Debt and Equity Securities

Authors: Member 2, Member 5

“[Members 5 and 2] disagree with the accounting treatment prescribed in paragraphs 6-18 of this Statement because it does not resolve two of the most important problems that caused the Board to address the accounting for certain investments in debt and equity securities -- namely, accounting based on intent, and gains trading. They believe that those problems can only be resolved by reporting all securities that are within the scope of this Statement at fair value and by including unrealized changes in fair value in earnings.

This Statement requires that debt securities be classified as held-to-maturity, available-for-sale, or trading and that securities in each classification be accounted for differently. As a result, three otherwise identical debt securities could receive three different accounting treatments within the same enterprise. Moreover, classification of debt securities as held-to-maturity is based on management's positive intent and ability to hold to maturity. The notion of intent to hold to maturity (a) is subjective at best, (b) is not likely to be consistently applied, (c) given the provisions in paragraphs 8-11, is not likely to be descriptive of actual transactions and events, and (d) disregards the best available information about the present value of expected future cash flows from a readily marketable debt security -- namely, its observable market price. Effective management of financial activities increasingly requires a flexible approach to asset and liability management that is inconsistent with a hold-to-maturity notion.”

SFAS 125 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities

Author: Member 9

“.... Furthermore, [Member 9] believes that in those instances where the financial-components approach is applied, all rights (assets) and obligations (liabilities) that are recognized by the transferor after a sale or securitization has occurred should be measured at fair value.

....

Paragraph 18 of Opinion 29 states, "The Board concludes that in general accounting for nonmonetary transactions should be based on the fair values of the assets (or services) involved which is the same basis as that used in monetary transactions. Thus, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain it . . ." (footnote reference omitted). The conclusion embodied in that language is that the accounting for both monetary and nonmonetary transactions acquired in an exchange should be based on the fair values of the assets (or services) involved. [Member 9] believes that in securitization transactions in which control is deemed under this Statement to be surrendered and in partial sales of financial assets, assets (or rights) are surrendered in exchange for cash and other rights and obligations, all of which are new.⁶ The new assets (rights) received are part of the proceeds of the exchange, and any liabilities (obligations) incurred are a reduction of the proceeds. As such, those new assets and liabilities should be measured at their fair values as they are in all other exchange transactions.

This Statement contends that in those transactions certain components of the original assets have not been exchanged. If that is one's view, however, it is clear that a transaction of sufficient significance to result in the derecognition of assets has occurred. Furthermore, the event of securitization results in a change in the form and value of assets -- securities are generally more easily sold or used as collateral and thus are more valuable than receivables. [Member 9] believes

that a securitization transaction, like the initial recognition of an asset or liability and derecognition of assets and liabilities where it is clear an exchange has occurred, is also sufficiently significant that the resulting, or remaining components of, assets and liabilities should be recorded at fair value.

[Member 9] also notes, as described in paragraphs 182-184, that the distinctions made in paragraphs 10 and 11 between (a) assets retained and (b) assets obtained and liabilities incurred are arbitrary. For example, one could easily argue that beneficial interests acquired in a transfer of receivables have different rights and obligations than the receivables and accordingly should be accounted for not as retained assets, but as new and different assets, and, arguably, the rights inherent in derivatives arising in a securitization transaction, which are considered new rights (assets) in this Statement, were embedded, albeit in an obscure form, in the transferred assets and could be as readily identified as retained portions of them. That the Board needed to make those distinctions arbitrarily begs for a consistent measurement attribute -- fair value -- for all of the rights and obligations held by the transferor subsequent to the transfer.

⁶ In the case of a partial sale of a financial asset, the transferor generally has reduced the marketability of the asset because it can no longer sell the entire asset -- it can only sell part of that asset. Consequently, the partial interest in the original asset has different rights and privileges than those embodied in the original asset and, therefore, is a new asset -- different from the original asset.”

SFAS 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)

Author: Member 9

[Ed: Member 9's dissent to SFAS 140 was nearly identical to their dissent to SFAS 125. As such, I do not reproduce it here.]

SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities

Author: Member 9

“[Member 9] dissents from the issuance of this Statement because [Member 9] disagrees with the Board’s conclusions on (1) subsequent measurement of liabilities for property leased under operating leases that will not be used in future operations,

The cash flows used in measuring liabilities for leases of property that will not be used in future operations must be reassessed each period for market changes in lease rates. Consequently, when there is a change in the expected cash flows, the new carrying amount is unrelated to previous amounts and accounting conventions and is a fresh-start measurement as that term is defined in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements. In that Concepts Statement, the Board concluded that the only objective of using present value, when used in accounting measurements at initial recognition and fresh-start measurements, is to estimate fair value. [Member 9] believes the Board should adhere to its conceptual framework and require that the objective of subsequent measurements of liabilities for leases of property that will not be used in future operations, which are fresh-start measurements, be fair value. [Member 9] observes that the difference between measuring such liabilities at fair value and the method adopted by the Board is solely which interest rate is used to discount the estimated cash flows. Furthermore, the current risk-free rate is always easily observable. Thus, there are no incremental costs involved in estimating fair value, and [Member 9] believes fair

value is clearly a more relevant measurement of the liability than that resulting from the method required by this Statement.”

SFAS 155 Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140)

Author: Member 17

“[Member 17] disagrees with the Board’s decision to permit, on an instrument-by-instrument basis, a fair value election for hybrid financial instruments with embedded derivatives that would otherwise require bifurcation. [Member 17] agrees with the Board’s conclusion, expressed in paragraph A14 (as well as elsewhere in other Statements issued by the Board), that fair value is the most relevant measurement attribute for financial instruments, and [Member 17] believes that the Board’s conclusion, expressed in paragraph A14, would support a requirement that fair value be the initial and subsequent measurement attribute for instruments that are eligible for the treatment alternative provided in this Statement. [Member 17] reasons that the requirement in Statement 133 to evaluate certain hybrid financial instruments to determine if they contain an embedded derivative that should be accounted for separately from the host contract is one approach to addressing the use of different measurement attributes for derivatives (fair value) and host contracts (sometimes fair value, and sometimes another attribute). A different approach, which [Member 17] believes is preferable, is to eliminate the use of different measurement attributes for financial instruments whenever it is practicable to do so. [Member 17] believes that the hybrid instruments that are subject to the scope of the Statement represent such a case.”

SFAS 156 Accounting for Servicing of Financial Assets (an amendment of FASB Statement No. 140)

Author: Member 17

“.... [Member 17] agrees with the Board’s conclusion, as described in paragraph A10, that fair value is the most relevant measurement attribute for servicing rights because of the similarities between those rights and financial instruments, and the Board’s conclusion, as described in paragraph A2, that the lower of fair value or carrying amount is a suboptimal measurement attribute. Therefore, [Member 17] would require that servicing rights be initially and subsequently measured at fair value in the statement of financial position, with changes in fair value reported in earnings.”

SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities (Including an amendment of FASB Statement No. 115)

Author: Member 22

“.... For these reasons, [Member 22] does not agree that this Statement represents a cost-beneficial interim step toward measuring all financial instruments at fair value—a long-term goal stated by the Board in Statement 133. Rather, [Member 22] believes users of financial statements would be better served by accelerating efforts to issue a Statement requiring all financial instruments to be measured at fair value each reporting period with changes in those fair values reported in earnings.”

Author: Member 21

“[Member 21] dissents from the issuance of this Statement because it will not improve financial reporting for the following reasons:

1. The provision of an option for fair value is likely to delay the adoption of consistent use of fair value measurement for financial instruments.

....

[Member 21] believes the fair value option will further delay a comprehensive fair value measurement requirement for financial instruments. [Member 21] believes the assumption in paragraph A3(d) cannot be supported by past experience or empirical evidence. [Member 21] believes the more likely outcome of this Statement is a very limited expansion in the use of fair value for financial instruments and a delay in the broader requirement for fair value for financial instruments.

With more than a decade of preparers' meeting the requirement for disclosure of fair values for financial instruments (Statement 107) and electing the option of trading classification for marketable securities (Statement 115), it is unlikely that any significant incremental preparer experience using fair value will be gained from this Statement that will facilitate adoption of a fair value requirement for financial instruments.

With the fair value option, a preparer can manage volatility that would otherwise exist from the mixed-attribute accounting model. With this benefit secured, there will only be greater resistance from the preparer community to wider adoption of a fair value measurement for financial instruments. Without a fair value option, the preparer community would be more supportive of a fair value measurement requirement for financial instruments. Therefore, the introduction of elective fair value can only result in further delay and resistance to the requirement for fair value measurement of financial instruments.”

FIGURE 1. Positions of FASB members and sponsoring organizations on a Statement

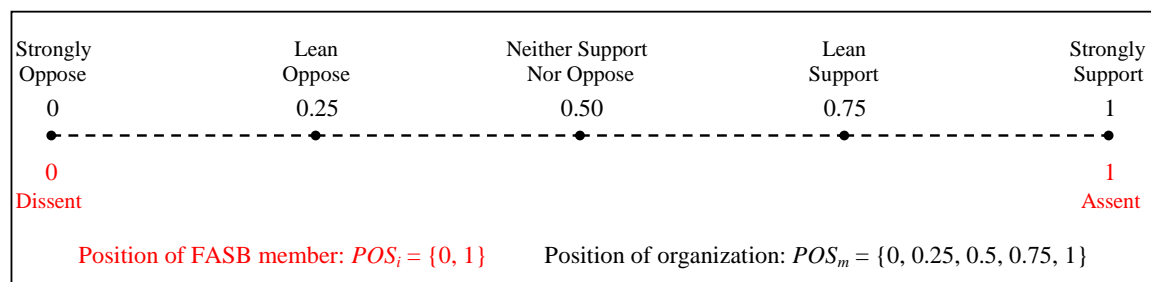


Figure 1 depicts the position of individual FASB member i (POS_i) and sponsoring organization m (POS_m) on a Statement. I determine positions of FASB members by their vote on each Statement (assent or dissent). I operationalize the position of each constituent group as the average of the position taken by the group's sponsoring organizations in comment letters to the final Exposure Draft related to each Statement. In theory, the position of the sponsoring organization is a continuous variable between the range zero and one. I classify these positions into five categories (based upon whether the letter opposes or supports the related ED) per the descriptions provided above the scale. I read each comment letter and use the definitions for each comment letter position (below) and the detailed instructions provided in Appendix 4 to place each letter into one of the five categories. The values provided above the scale indicate how each category was converted into a POS_m value.

FIGURE 2. Illustration of inside dissent and outside dissent

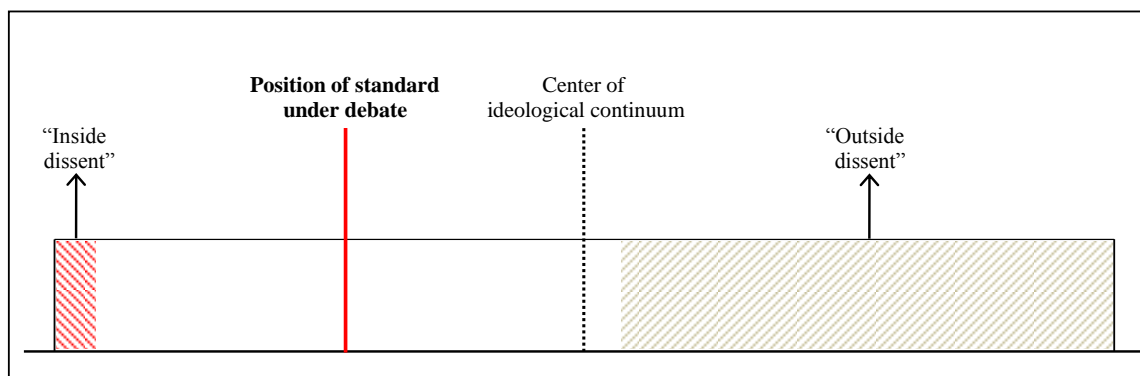


Figure 2 illustrates the two distinct types of dissent discussed in Section 3.2. The horizontal line represents an ideological continuum, and a simplifying assumption is made that standard-setters are uniformly distributed across the continuum. In this hypothetical situation, an accounting standard up for debate (solid vertical line) is positioned to the left of center. This standard is opposed by a majority of standard-setters on the right of the continuum (*outside dissent*), but is supported by those standard-setters on the right whose positions are closest to the center because the position of the standard is sufficiently near to their ideological position. The standard is also supported by a majority of standard-setters on the left of the continuum. However, the standard is opposed by the segment of standard-setters furthest to the left because the position of the standard is sufficiently far from their ideological position (*inside dissent*).

The key intuition of this depiction is that there are different types of dissent, and the true position of a standard-setter cannot be identified by merely observing that they voted against a standard – merely observing a dissenting vote does not distinguish a standard-setter whose ideology is in the shaded area on the left from one whose ideology is in the shaded area on the right. As this figure helps to indicate, inside dissent for a particular ideology can only be observed on a standard favoring that ideology.

FIGURE 3. FASB dissent, constituent dissent, and Statement type for matched sample

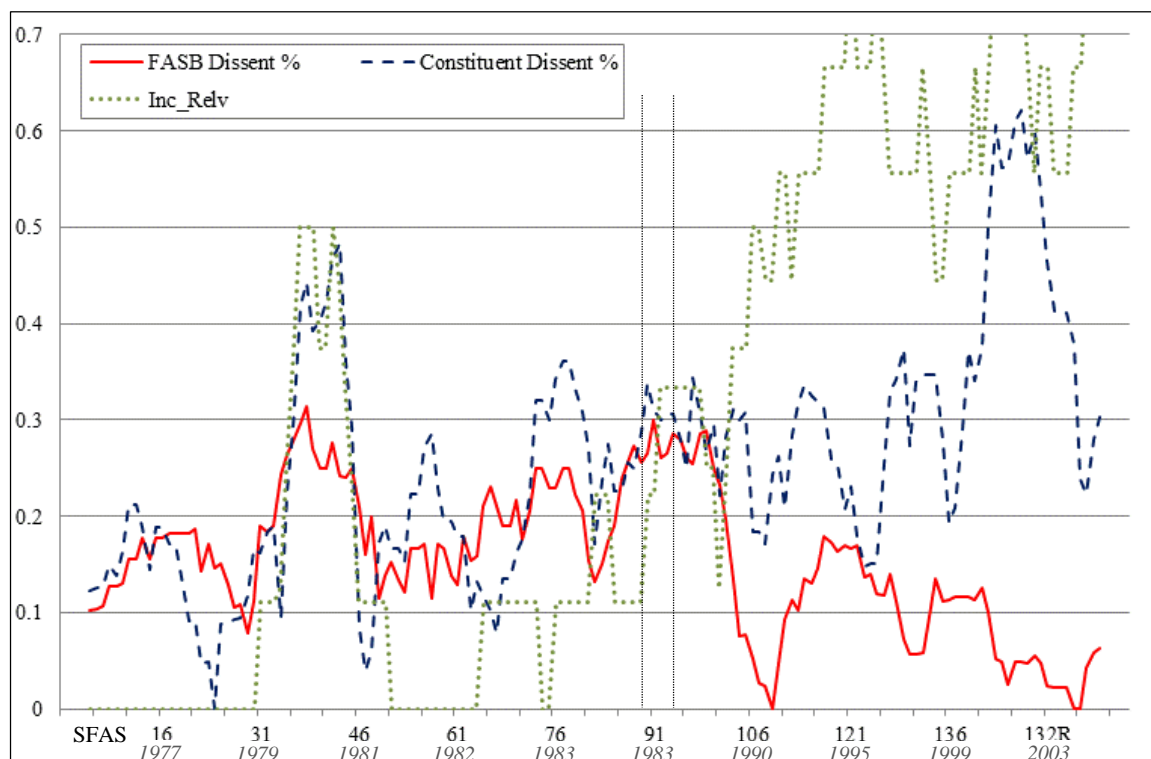


Figure 3 depicts time-series variation in FASB dissent, constituent dissent, and Statements increasing perceived accounting relevance. This Figure supplements the data presented in Panel D of Table 5 (which is used to support Hypotheses 1a and 1b) by providing the data in a more granular fashion and by graphically illustrating the data.

The solid line in Figure 3 represents a rolling average of FASB dissent percentage (total dissents \div total votes) on SFASs (from SFAS 1 through SFAS 160, inclusive of revisions) for the sample of FASB votes that have been matched to constituent positions. For all three data series' in Figure 3, the rolling average is calculated over 9 SFASs, so the first data point represents SFAS 5 (the middle point of the first 9 SFASs).

The dashed line represents a rolling average of constituent dissent percentage (total dissents \div total votes) on SFASs (from SFAS 1 through SFAS 160) for the sample of constituent positions matched to FASB votes. Constituent positions less than 0.5 are coded a dissent (“strongly oppose” is 0.00 and “lean oppose” is 0.25), while positions equal to 0.5 (“neither support nor oppose”) are coded as one-half of a dissent.

The dotted line represents a rolling average of the indicator variable *Inc_Relv*, which identifies SFASs that increase perceived accounting relevance – as such, the rolling average represents the percentage of nearby Statements that increase relevance. In some instances this exceeds 70%, values which are not visible on the graph. The peak value of the rolling average is 89%, relating to the averages around both SFAS 144 and SFAS 145. The variable *Inc_Relv* equals unity if either of the two Allen and Ramanna (2013) relevance measures is greater than zero, and it equals zero otherwise. It is populated for 160 out of the 163 Statements from SFASs 1 through 160 (inclusive of revisions). As outlined in Appendix 1, standards increasing in accounting relevance

are linked to the asset-and-liability view of accounting, which, per the FASB, is endorsed in the conceptual framework.

The vertical lines in Figure 3 represent points related to the completion of the conceptual framework. The first line relates to SFAS 89, prior to which SFAC 6 was issued and at which time two new members were added to the Board (i.e. the introduction of post-CF members). The second line relates to SFAS 94, the point at which the Board was comprised of a majority of post-CF members.

TABLE 1. FASB Statements of Financial Accounting Concepts

Concepts Statement	Description	Date Issued
SFAC 1	Objectives of Financial Reporting by Business Enterprises	11/1978
SFAC 2	Qualitative Characteristics of Accounting Information	5/1980
SFAC 3	Elements of Financial Statements of Business Enterprises	12/1980
SFAC 4	Objectives of Financial Reporting by Nonbusiness Organizations	12/1980
SFAC 5	Recognition and Measurement in Financial Statements of Business Enterprises	12/1984
SFAC 6	Elements of Financial Statements—a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)	12/1985
SFAC 7	Using Cash Flow Information and Present Value in Accounting Measurements	2/2000
SFAC 8	Conceptual Framework for Financial Reporting—Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information (a replacement of FASB Concepts Statements No. 1 and No. 2)	9/2010

Table 1 provides the full history of the FASB’s Statements of Financial Accounting Concepts (SFACs) that comprise the conceptual framework (CF).

SFAC 6 is a replacement of SFAC 3. Its primary purpose is to make SFAC 3 applicable to not-for-profit entities (FASB 1985). I define the issuance of SFAC 6 as the completion of the “primary stage” of the CF because at that moment the CF project appeared to be complete.

SFAC 7 provides general principles that govern the use of present value, and provides a common understanding of the objective of present value in accounting measurements (FASB 2000).

The FASB and the International Accounting Standards Board (IASB) have been working on a project to converge their frameworks. SFAC 8 represents the first step towards a single framework that is accepted by both standard-setting bodies (FASB 2010).

TABLE 2. Variable detail: Definitions, construction, and availability

Variable Name (Short Name)	Variable Type	Definition, Construction, and Availability
<i>Constituent position ($POS_{j,t}$)</i>	Discrete	I measure the position of constituent group j on Statement t as the average position taken by the group's sponsoring organizations in comment letters to the final Exposure Draft related to the Statement. I first identify CLs submitted by sponsoring organizations to the final ED relating to each Statement. I then match FASB votes on each Statement to the position taken by that member's constituency within comment letters to the related Exposure Draft. For tractability, positions taken by sponsoring organizations in CLs are classified into five categories: strongly oppose ($POS_m = 0$), lean oppose (0.25), neither support nor oppose (0.5), lean support (0.75), and strongly support ($POS_m = 1$). The sponsoring organizations for each constituent group are: AICPA (Auditors), FEI and IMA (Preparers), CFA Institute and SIFMA (Users), and the AAA (Academics). Because the Government sponsoring organizations (GFOA and NASACT) submitted CLs on only two Statements, I also drop the Government constituency from my sample. These data are hand-coded and are collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions: SFAS 123R, 132R, and 141R). I identify a total of 423 constituent positions across those 163 Statements. Refer to Appendix 4 for a description of the coding process used to categorize constituent positions.
<i>FASB member position ($POS_{i,t}$)</i>	Binary	I measure the position of FASB member i on Statement t by their vote: assent ($POS_{i,t} = 1$) or dissent ($POS_{i,t} = 0$). Voting data are hand-collected for the full population of 212 Statements issued by the FASB from its inception in 1973 through August 2012: all 171 SFASs (SFAS 1 through 168, inclusive of revisions) as well as the 41 ASUs from 2009-01 through 2012-02 that required an affirmative vote of FASB members.
<i>Number of matched FASB votes ($n_{i,t}$)</i>	Count	The variable $n_{i,t}$ measures the total number of matched FASB votes i on Statement t . After identifying the position of constituent group j on Statement t , I "match" each FASB vote ($POS_{i,t}$) to the position of their constituency ($POS_{j,t}$). I am unable to match a FASB vote to their constituency if the related sponsoring organization(s) does not submit a comment letter on a Statement (as noted above, I collect a total of 423 constituent positions across the 163 SFASs). For the population of 163 SFASs for which $POS_{j,t}$ values were collected, I match a total of 762 votes out of a possible 1,006 FASB votes (this total excludes votes by FASB members from the Government constituency).

<i>Representativeness (R_t)</i>	Continuous	<p>This variable measures the extent to which the FASB's position on Statement <i>t</i> aligns with the position of their constituent sponsoring organizations. In order to delineate the representativeness of members selected in the pre-CF period from members selected in the post-CF period, for SFAS 1 through SFAS 93 (SFAS 94 through SFAS 160), <i>Representativeness</i> is determined using only the votes by pre-CF members (post-CF members). For each Statement I require a minimum of 2 FASB votes matched to constituent positions. I identify 152 <i>R_t</i> values out of the 163 Statements from SFAS 1 through SFAS 160 (inclusive of revisions). The metric is structured such that 'perfect' representativeness (no difference between the aggregate FASB position and the aggregate position of the constituents) leads to a score of 1.0, as follows:</p> $R_t = 1 - \frac{\left \sum_j POS_{j,t} - \sum_i POS_{i,t} \right }{n_{i,t}}$
<i>Constituent dissent (Constituent Dissent)</i>	Discrete	This variable transforms the constituent position variable (<i>POS_{j,t}</i>) into a measure of dissent in order to allow a comparison to dissents made by FASB members. Constituent positions less than 0.5 are coded a dissent, while positions equal to 0.5 are coded as one-half of a dissent.
<i>FASB dissent percentage (FASB Dissent_t)</i>	Continuous	This variable is measured as the dissent percentage (total dissents ÷ total votes) among pre-CF FASB members or post-CF FASB members. As I require a minimum of 4 votes by either pre-CF or post-CF members, this variable represents the dissent percentage among pre-CF members for SFAS 1 through SFAS 93 and the dissent among post-CF members for SFAS 94 through SFAS 160 (inclusive of revisions).
<i>Increase relevance (Inc_Rel_t)</i>	Binary	This indicator variable identifies Statements that increase perceived accounting relevance, which I use as a proxy for Statements which favor the asset-and-liability view of accounting. It equals unity if either of the two Allen and Ramanna (2013) relevance metrics (<i>inc_relv</i> and <i>Manual_inc_relv</i>) is greater than zero. It is populated for 160 out of the 163 Statements from SFASs 1 through 160 (inclusive of revisions) – all except SFAS 38, SFAS 103, and SFAS 141R.
<i>Average tenure (AvgTenure_t)</i>	Continuous	This variable identifies the average tenure of FASB members, and is measured as the log of the average number of Statements the members have voted on as of (and inclusive of) Statement <i>t</i> . It is populated for all 212 Statements.
<i>One-year lagged market returns (LagReturn_t)</i>	Continuous	This variable provides the lagged one-year market return as of the date of the final ED to each Statement. It is calculated from the daily Value-Weighted Return (including dividends) (Variable Name: VWRETD) from the CRSP Stock Market Indexes file, and is populated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).
<i>Number of recent FASB standards (ED_Frequency_t)</i>	Continuous	This variable is measured as the log of the number of Exposure Drafts (that ultimately became Statements of Financial Accounting Standards) that were issued by the FASB in the two years prior to the date of the final ED to each Statement. It is populated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).

<i>Statements issued in the pre-CF period (Pre_t)</i>	Binary	This indicator variable identifies Statements issued in the pre-CF period, and is equal to unity for SFAS 1 through SFAS 93. It is populated for all 212 Statements. When <i>Pre</i> is included as a stand-alone independent variable in a regression, the reference category in the regression is <i>Post</i> , an excluded indicator variable equal to unity for all Statements after SFAS 93.
<i>Statements issued under a supermajority vote ($Supermajority_t$)</i>	Indicator	This indicator variable is equal to unity for the following Statements which were issued under a required supermajority vote: SFAS 1 through SFAS 15 and SFAS 107 through SFAS 144 (see Panel D of Table 3 for details), and is populated for all 212 Statements.
<i>Sponsoring organization position ($POS_m_Ordinal$)</i>	Discrete	This variable represents the position of sponsoring organization <i>m</i> on each comment letter. Because it is used as a dependent variable, I monotonically transform the original comment letter positions which took values {0.0, 0.25, 0.5, 0.75, 1.0} such that the variable $POS_m_Ordinal$ takes integer values {1, 2, 3, 4, 5}. These data are hand-coded and are collected from comment letters to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 528 sponsoring organization positions across those 163 Statements.
<i>Pre-CF FASB member ($FASB_Pre-CF$)</i>	Binary	This is an indicator variable equal to unity when one of the signatories on a sponsoring organization's comment letter was subsequently selected to the FASB in the pre-CF period (i.e. members in Panel A of Table 3). These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 23 such CLs.
<i>Post-CF FASB member ($FASB_Post-CF$)</i>	Binary	This is an indicator variable equal to unity when one of the signatories on a sponsoring organization's comment letter was subsequently selected to the FASB in the post-CF period (i.e. members in Panel B of Table 3). These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 53 such CLs.
<i>Position of other sponsoring organizations ($POS_{others_Ordinal}$)</i>	Continuous	This is the average of the ordinal CL positions taken by the other sponsoring organizations on the related Statement. These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I drop all comment letters where the related Statement has fewer than two matched sponsoring organization positions; as such, this will be the average position of one to four other organizations. Because of this requirement I lose 8 observations (out of 528 sponsoring organization positions) where only one sponsoring organization submitted a comment letter on a Statement.
<i>Length of time between the final ED and the Statement ($TimeLag_t$)</i>	Continuous	This variable measures the length of time between the release of the final Exposure Draft related to Statement <i>t</i> and the Statement itself, and is calculated as the log of the number of months between release of the ED and the Statement. The number of months is a continuous variable calculated as [(Date of Statement – Date of ED)/30]. This variable is calculated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).

TABLE 3. Summary of FASB voting data by member, chairperson, and voting requirement

Panel A: Members selected in the pre-CF period

Member	Group	Experience	Tenure	Votes	Assents	Dissents	Abstain
Armstrong	Auditor	CAP, APB	1973 – 1977	20	20	0	0
Queenan	Auditor	CAP, APB	1973 – 1975	3	3	0	0
Litke	Gov't	–	1973 – 1977	20	16	4	0
Mays	Preparer	–	1973 – 1977	20	17	3	0
Kirk	Auditor	*	1973 – 1986	91	77	14	0
Sprouse	Academic	–	1973 – 1985	88	74	14	0
Schuetze	Auditor	–	1973 – 1975	12	11	1	0
Gellein	Auditor	APB, FASB	1975 – 1978	21	18	3	0
Walters	Auditor	–	1977 – 1983	64	49	15	0
March	Auditor	FASB	1978 – 1984	62	49	13	0
Morgan	Preparer	FASAC	1978 – 1982	51	39	12	0
Mosso	Gov't	–	1978 – 1987	77	65	12	0
Block	User	FASB	1979 – 1985	63	56	7	0
Brown	Preparer	FASAC	1983 – 1993	46	41	5	0
Lauver	Auditor	FASB, FASAC	1984 – 1990	28	18	10	0
Wyatt	Auditor	FASAC	1985 – 1987	11	8	3	0

Panel B: Members selected in the post-CF period

Member	Group	Experience	Tenure	Votes	Assents	Dissents	Abstain
Northrop	Preparer	FASB	1986 – 1990	18	15	3	0
Swieringa	Academic	–	1986 – 1996	37	30	7	0
Beresford	Auditor	EITF, IASC, FASAC	1987 – 1997	40	37	3	0
Leisenring	Auditor	EITF, FASB	1987 – 2000	46	39	7	0
Sampson	Gov't	–	1988 – 1993	20	19	1	0
Anania	Auditor	–	1991 – 1999	31	30	1	0
Northcutt Jr.	Preparer	FASAC	1992 – 1996	16	14	2	0
Cope	User	–	1994 – 2000	23	21	2	0
Foster	Preparer	FASAC	1994 – 2003	33	25	8	0
Larson	Preparer	FASAC, EITF	1996 – 2001	18	18	0	0
Mueller	Academic	–	1996 – 2001	18	18	0	0
Jenkins	Auditor	FASAC, EITF	1998 – 2002	15	15	0	0
Trott	Auditor	EITF, FASAC	2000 – 2007	24	24	0	0
Crooch	Auditor	IASC, FASB	2000 – 2008	26	26	0	1
Schieneman	User	–	2001 – 2004	12	12	0	0
Wulff	Preparer	–	2001 – 2003	7	7	0	0
Schipper	Academic	FASAC	2002 – 2006	14	12	2	0
Herz	Auditor	FASB, EITF	2002 – 2010	50	50	0	0
Batavick	Preparer	–	2003 – 2008	16	16	0	0
Seidman	Preparer	FASB	2003 –	62	60	2	0
Young	User	–	2005 – 2008	11	10	1	0
Linsmeier	Academic	–	2006 –	54	48	6	0
Smith	Auditor	FASB, EITF	2007 –	49	45	4	2
Siegel	User	FASB	2009 –	43	42	1	3
Golden	Auditor	FASB, EITF	2010 –	16	16	0	0
Buck	Preparer	FASB	2011 –	9	9	0	3
Schroeder	User	EITF	2011 –	9	7	2	3

Panel C: Voting subtotals by Chairperson

Chair	Group	Experience	Tenure	Votes	Assents	Dissents	Abstain
Armstrong	Auditor	CAP, APB	1973 – 1977	138	118	20	0
Kirk	Auditor	FASB*	1978 – 1986	496	409	87	0
Beresford	Auditor	EITF, IASC, FASAC	1987 – 1997	277	241	36	0
Jenkins	Auditor	FASAC, EITF	1998 – 2002	100	94	6	1
Herz	Auditor	FASB, EITF	2002 – 2010	285	276	9	5
Seidman	Preparer	FASB	2010 –	98	88	10	6

Panel D: Voting subtotals by history of FASB voting requirements

Statements	Members	Voting Requirement	Votes	Assents	Dissents	Abstain
SFAS 1 – SFAS 15	7	5-2 Super majority	103	91	12	0
SFAS 16 – SFAS 106	7	4-3 Simple majority	636	523	113	0
SFAS 107 – SFAS 144	7	5-2 Super majority	258	235	23	1
SFAS 145 – SFAS 163	7	4-3 Simple majority	152	144	8	2
SFAS 164 –	5	3-2 Simple majority	167	164	3	3
ASU 2011-01						
ASU 2011-02 –	7	4-3 Simple majority	78	69	9	6

Table 3 provides a summary of FASB voting data. Panel A includes the complete voting history on SFASs by pre-CF members; this includes all votes from SFAS 1 through SFAS 88 and a portion of votes from SFAS 89 through SFAS 117. Panel B includes the complete voting history on SFASs and ASUs by post-CF members; this includes a portion of votes from SFAS 89 through SFAS 117 and all votes from SFAS 118 through ASU 2012-02. Panel C includes the voting history of all FASB members (for the listed SFASs and ASUs), subtotaled by Chairperson. Panel D includes the complete voting history for the population subtotaled by voting requirement regime. At various points the FASB has either had a 7-person Board with a requirement for a 5-2 supermajority, a 7-person Board with a simple majority requirement, or a 5-person Board with a simple majority requirement.

Voting data are hand-collected from each SFAS and ASU. The full population includes every numerical SFAS from SFAS 1 through SFAS 168, SFASs 132R, 123R, and 141R (which were included within the population based on their chronological date of issuance), and the 41 ASUs from 2009-01 through 2012-02 (through August 2012) that required an affirmative vote of FASB members.

Information on each member's constituent "Group" is determined by reviewing official FASB biographies for each member. Biographical information is obtained from: (1) the current FASB website (www.fasb.org) as of September 2012, (2) archived versions of the FASB website (obtained from the Internet Archive at www.archive.org), and (3) from various issues of the FASB *Status Report* (those issues providing an announcement of the new FASB member; they were obtained from the FAF via request). In each case the type is based on the member's occupation immediately preceding their Board membership. Auditors are classified as an "Auditor," college professors who hold a PhD are classified as an "Academic," industry executives (non-financial services) are classified as a "Preparer," government regulators are classified as "Gov't," and all others are classified as a financial statement "User" (e.g. financial analyst, banking).

Members who served in some capacity on the AICPA's Committee on Accounting Procedure (CAP), Accounting Principles Board (APB), the FASB (e.g. in a staff role or as the member of a

committee), any entity related to the FASB (e.g. the Financial Accounting Standards Advisory Council [FASAC]), or the International Accounting Standards Committee (IASC) prior to their FASB tenure are considered to have prior standard-setting experience, which is indicated in the “Experience” column. The beginning and ending years included in the “Tenure” column reflects the date of the first and last Statement on which each member voted and therefore may not perfectly align with each member’s actual tenure as a FASB member. When a FASB member abstains, it is not included as a vote in the “Votes” totals included above.

* Donald Kirk served as a FASB member prior to becoming Chairperson. His biographical information indicates he had no standard-setting experience prior to his initial appointment. Therefore, while he had no standard-setting experience prior to his appointment as a member, he had FASB experience prior to his appointment as Chairperson.

TABLE 4. Descriptive statistics for Statement-level variables

Panel A. Summary statistics

Variable	Observations	Mean	Median	Standard Deviation	Minimum	25%	75%	Maximum
<i>Representativeness</i>	152	0.752	0.786	0.207	0.125	0.634	0.917	1.000
<i>FASB Dissent</i>	212	0.112	0.000	0.149	0.000	0.000	0.250	0.500
<i>POS_j_Auditor</i>	148	0.674	0.750	0.257	0.000	0.500	0.750	1.000
<i>POS_j_Preparer</i>	149	0.668	0.750	0.322	0.000	0.500	1.000	1.000
<i>POS_j_User</i>	78	0.684	0.750	0.309	0.000	0.500	1.000	1.000
<i>POS_j_Academic</i>	46	0.696	0.750	0.283	0.000	0.500	1.000	1.000
<i>AvgTenure</i>	212	2.986	2.967	0.630	0.000	2.587	3.480	3.989
<i>LagReturn</i>	163	0.123	0.135	0.177	-0.344	-0.008	0.252	0.651
<i>ED_Frequency</i>	163	2.541	2.485	0.585	0.000	2.197	3.045	3.584
<i>Inc_Relv</i>	160	0.306	0.000	0.462	0.000	0.000	1.000	1.000

Panel B. Pearson and Spearman correlations

	R_t	<i>FASB Dissent</i>	<i>POS_j Audit</i>	<i>POS_j Preparer</i>	<i>POS_j User</i>	<i>POS_j Academic</i>	<i>Avg Tenure</i>	<i>Lag Return</i>	<i>ED_ Freq</i>	<i>Inc_ Relv</i>
R_t		0.20**	0.71***	0.58***	0.13	0.05	0.12	0.02	0.15*	-0.39***
<i>FASB Dissent</i>	0.48***		-0.10	-0.11	-0.36***	-0.26*	0.15**	0.03	0.25***	-0.05
<i>POS_j_Audit</i>	0.71***	0.05		0.46***	0.12	-0.01	-0.01	0.02	0.02	-0.19**
<i>POS_j_Preparer</i>	0.53***	0.10	0.40**		0.04	0.09	0.08	-0.02	0.09	-0.39***
<i>POS_j_User</i>	0.06	-0.43**	0.11	-0.01		0.65***	-0.24**	0.02	-0.32***	-0.07
<i>POS_j_Academic</i>	0.14	-0.22	-0.04	0.07	0.55***		-0.29*	0.14	-0.20	-0.11
<i>AvgTenure</i>	-0.10	0.51***	-0.37**	-0.07	-0.63***	-0.26		0.21***	0.78***	-0.11
<i>LagReturn</i>	-0.32*	0.05	-0.09	-0.45**	-0.11	-0.08	0.19		0.20**	0.17**
<i>ED_Frequency</i>	0.04	0.46**	-0.16	-0.04	-0.36**	-0.07	0.47***	0.40**		-0.23***
<i>Inc_Relv</i>	-0.33*	-0.24	-0.03	-0.19	-0.12	-0.35*	0.31*	0.22	-0.21	

Table 4 provides descriptive statistics for variables from equations 2 and 3 (estimated in Tables 6 and 7, respectively) as well as POS_j values for each constituency. Panel A provides summary statistics, while Panel B provides the correlation between each variable. Pearson (Spearman) correlations are above (below) the diagonal.

Representativeness (R_t) measures the extent to which the FASB's position on Statement t aligns with the position of their constituent sponsoring organizations. *FASB Dissent* is the dissent percentage of the FASB vote on each Statement (total dissents \div total votes) among either pre-CF members (through SFAS 93) or post-CF members (after SFAS 93). POS_j represents the position of constituent group j on each Statement and is determined by the average position taken by the sponsoring organization(s) for the *Audit*, *Preparer*, *User*, and *Academic* constituencies on comment letters to the related Exposure Draft. *AvgTenure* measures the experience level of the FASB members voting on each Statement. *LagReturn* is the lagged one-year return on the CRSP value-weighted index as of the date of the final ED to each Statement. *ED_Frequency* is the log of the number of Exposure Drafts that ultimately became standards that were issued in the two years prior to the date of the final ED to each Statement. *Inc_Relv* is an indicator variable which identifies Statements perceived as increasing perceived accounting relevance.

Additional detail regarding each variable is included within Table 2.

Significance levels based on two-tailed p-values: (*) 10% level, (**) 5% level, (***) 1% level

TABLE 5. Analysis of FASB and constituent positions in the pre- and post-CF periods

Panel A. FASB Representativeness on Statements issued by pre- and post-CF members

	<i>Represent_Pre</i>	<i>Represent_Post</i>	H_a	<i>Represent_Post - Represent_Pre</i>		
				Difference	T-stat	P-value
Mean	0.809	0.677	–	–0.132***	–3.97	0.000
S.D.	0.175	0.222				
Observations	87	65				

Note: 15 of the 87 values of *Represent_Pre* are lower than the mean *Represent_Post* value

Panel B. FASB dissents for full population of members and Statements

	<i>FASB_Pre</i>	<i>FASB_Post</i>	H_a	<i>FASB_Post - FASB_Pre</i>		
				Difference	T-stat	P-value
Total votes	677	717				
Total assents	561	665				
Total dissents	116	52				
Total abstain	0	12				
Dissent %	17.1%	7.3%	–	–9.9%***	–5.67	0.000

Panel C. FASB dissents – Excluding all 4-3 votes during simple majority periods

	<i>FASB_Pre</i>	<i>FASB_Post</i>	H_a	<i>FASB_Post - FASB_Pre</i>		
				Difference	T-stat	P-value
Total votes	562	692				
Total assents	496	650				
Total dissents	66	42				
Total abstain	0	12				
Dissent %	11.7%	6.1%	–	–5.7%***	–3.47	0.000

Panel D. FASB dissents and constituent dissents – Difference-in-differences for matched sample

	Pre-CF Members	Post-CF Members	
<i>Matched FASB Dissents</i>	79 / 427 18.5%	34 / 335 10.1%	8.4%*** (3.33)
<i>Constituent Dissents</i>	90.5 / 427 21.2%	103 / 335 30.7%	-9.6%*** (-3.31)
% Difference	-2.7%	-20.6***	17.9%***
(T-statistic)	(-1.11)	(-7.44)	(4.86)

Panel E. Analysis of submission frequency by constituent group for matched sample

Constituent Group	Pre-CF	Post-CF	Difference	(T-statistic)
	Matched Votes <i>Constituent Dissents</i>	Matched Votes <i>Constituent Dissents</i>		
Auditors	287 / 312 (92%) 53.5 / 287 (19%)	176 / 195 (90%) 48 / 176 (27%)	1.7% 8.6%***	(0.66) (2.39)
Preparers	112 / 117 (96%) 27 / 112 (24%)	99 / 117 (85%) 43 / 99 (43%)	-11.1%*** 19.3%***	(-2.89) (3.29)
Users	11 / 63 (17%) 7 / 11 (64%)	31 / 43 (72%) 4.5 / 31 (15%)	54.6%*** -49.1%***	(6.47) (-3.02)
Academics	17 / 88 (19%) 3 / 17 (18%)	29 / 71 (41%) 7.5 / 29 (26%)	21.5%*** 8.2%	(2.97) (0.68)

Panel A of Table 5 provides data on the representativeness of FASB votes, which is used to test Hypothesis 1a. Panels B and C provide data on FASB dissents, which is used to test Hypothesis 1b. Panel B includes the entire population of all member votes on all Statements (SFAS 1 through ASU 2012-02). Panel C starts with the entire population of Statements and then adjusts for the structural differences between simple majority periods and supermajority periods (see Panel D of Table 3). Panel C includes all votes during supermajority periods but excludes all 4-3 votes during simple majority periods, as these outcomes would not be observed under supermajority rule.

Panel D provides data on constituent dissents, which is used to jointly test Hypotheses 1a and 1b. Panel E provides detail on comment letter submission frequencies and constituent dissent by

constituent group in the pre-CF and post-CF period. The data on submission frequencies facilitate an understanding of the impact of “missing” comment letters, while the data on constituent dissent provide additional detail on the results in Panel D.

Panel A: *Representativeness* measures the extent to which the FASB’s position on Statement *t* aligns with the position of their constituent sponsoring organizations, and is structured such that ‘perfect’ representativeness (no difference between the aggregate FASB position and the aggregate position of the constituents) leads to a score of 1.0. The variable *Represent_Pre* (*Represent_Post*) is the average representativeness on an SFAS for pre-CF FASB members (post-CF FASB members) and is calculated for SFAS 1 through SFAS 93 (SFAS 94 through SFAS 160, inclusive of revisions).

Panels B and C: *FASB_Pre* (*FASB_Post*) includes votes on SFASs by pre-CF FASB members (post-CF FASB members). When a FASB member abstains from voting, it is not included in “Total Votes” included above, however these instances are included in the denominator when calculating “Dissent % + Abstain %.”

Panel D: *Matched FASB Dissents* reflects the total number of dissents on FASB member votes that have been matched to a constituent position. Voting data are hand-collected from each Statement. *Constituent Dissents* reflects the total number of constituent dissents for those constituent positions matched to FASB member votes. The left-hand column (right-hand column) represents constituent positions matched to votes taken by pre-CF.

Panel E: *Pre-CF* (and *Post-CF*) *Matched Votes* reflects the total number of matched constituent positions and the total number of FASB votes (inclusive of unmatched votes), respectively, for each constituent group. These data allow for an analysis of the possible effect of the unobserved decision by constituent groups to send or not send comment letters to the FASB. *Constituent Dissents* is repeated from Panel D; in Panel E the data are disaggregated by constituent group.

Differences in Panels A, B, C, and E are calculated using a Welch’s t-test for unpaired data with unequal variances. Vertical (horizontal) differences in Panel D are calculated by using a two-sample paired data mean-comparison test (Welch’s t-test for unpaired data with unequal variances). The difference-in-differences is calculated as the difference in vertical differences using a Welch’s t-test for unpaired data with unequal variances.

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level

P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

TABLE 6. Effect of Statement type on Representativeness pre- and post-CF

<i>DV = Representativeness</i>		(1)		(2)	
	Prediction	Mean (t-stat)	P-value	Mean (t-stat)	P-value
<i>Pre</i>	?	0.10** (2.77)	0.01	0.12** (2.76)	0.01
<i>Inc_Relv</i>	–	–0.08** (–1.76)	0.05	–0.08** (–1.77)	0.05
<i>Inc_Relv*Pre</i>	?	–0.20* (–1.78)	0.09	–0.20* (–2.11)	0.05
<i>AvgTenure</i>	?			0.04 (1.32)	0.21
<i>LagReturn</i>	+			0.14** (2.08)	0.03
<i>ED_Frequency</i>	–			–0.04 (–1.20)	0.12
<i>Constant</i>	?	0.73*** (20.97)	0.00	0.70*** (13.51)	0.00
<i>(Inc_Relv*Pre) + Inc_Relv [F-test]</i>	?	–0.28** [7.49]	0.01	–0.28** [11.50]	0.00
<i>Fixed effects?</i>		No		No	
<i>Robust SE?</i>		Yes; clustered by Combination		Yes; clustered by Combination	
<i>Observations</i>		150		150	
<i>Adjusted R²</i>		17.2%		17.4%	

Table 6 provides results for the estimation of equation 2, and is used for testing Hypothesis 2a. Column (1) estimates a basic version of the equation without any control variables, while column (2) estimates the full equation.

Representativeness measures the extent to which the FASB's position on Statement t aligns with the position of their constituent sponsoring organizations, and is structured such that 'perfect' representativeness (no difference between the aggregate FASB position and the aggregate position of the constituents) leads to a score of 1.0.

The variable *Pre* is an indicator variable equal to unity for SFAS 1 through SFAS 93. The variable *Inc_Relv* is an indicator variable which identifies Statements perceived as increasing perceived accounting relevance. The reference category is *Post*, an indicator variable (excluded from these regressions) equal to unity for SFAS 94 through SFAS 160 (inclusive of revisions), so the coefficients on the standalone *Inc_Relv* variable reflects the *Post* period.

LagReturn is the lagged one-year return on the CRSP value-weighted index as of the date of the final ED to each Statement. *ED_Frequency* is the log of the number of Exposure Drafts that ultimately became standards that were issued in the two years prior to the date of the final ED to each Statement.

I exclude combination fixed effects because this test is motivated by a consideration of a selection effect. These fixed effects would capture explanatory power related to systematic differences between each group of FASB members, which effects are endogenous to the selection story that motivates this test.

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level

P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

TABLE 7. Effect of Statement type on FASB dissent pre- and post-CF

<i>DV = FASB Dissent</i>		(1)		(2)	
	Prediction	Mean (t-stat)	P-value	Mean (t-stat)	P-value
<i>Pre</i>	?	0.13** (2.45)	0.02	0.12** (2.37)	0.02
<i>Inc_Relv</i>	?	0.00 (0.03)	0.97	0.00 (0.06)	0.95
<i>Inc_Relv*Pre</i>	+	0.19** (2.28)	0.01	0.17** (1.87)	0.03
<i>AvgTenure</i>	?			0.06* (1.78)	0.08
<i>Supermajority</i>	–			0.01 (0.16)	0.56
<i>Constant</i>	?	–0.06 (–1.13)	0.26	–0.21* (–1.84)	0.07
<hr/>					
<i>(Inc_Relv*Pre) + Inc_Relv [F-test]</i>	?	0.19*** (20.91)	0.00	0.17*** (9.31)	0.00
<hr/>					
<i>Fixed effects?</i>		No		No	
<i>Robust SE?</i>		Yes; clustered by Combination		Yes; clustered by Combination	
<i>Observations</i>		160		160	
<i>Pseudo R²</i>		10.4%		12.2%	

Table 7 provides results for the estimation of equation 3, and is used for testing Hypothesis 2b. The reference category is *Post*, so the coefficients on the standalone *Inc_Relv* and *AvgTenure* variables reflect the *Post* period. Column (1) estimates a basic version of the equation without any control variables, while column (2) estimates the full equation. I use a Tobit regression because the dependent variable *FASB Dissent* is left-censored at zero.

FASB Dissent is the dissent percentage of the FASB vote on each Statement (total dissents ÷ total votes) among either pre-CF members (through SFAS 93) or post-CF members (after SFAS 93).

The variable *Pre* is an indicator variable equal to unity for SFAS 1 through SFAS 93. The variable *Inc_Relv* is an indicator variable which identifies Statements perceived as increasing perceived accounting relevance. The reference category is *Post*, an indicator variable (excluded from these regressions) equal to unity for SFAS 94 through SFAS 160 (inclusive of revisions), so the coefficients on the standalone *Inc_Relv* variable reflects the *Post* period.

AvgTenure measures the experience level of the FASB members voting on each Statement. *Supermajority* is an indicator variable equal to unity when a Statement is issued under a required supermajority vote.

I exclude combination fixed effects because this test is motivated by a consideration of a selection effect. These fixed effects would capture explanatory power related to systematic differences

between each group of FASB members, which effects are endogenous to the selection story that motivates this test.

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level

P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

TABLE 8. Analysis of comment letter signatories selected onto the FASB pre- and post-CF

<i>DV = POS_m_Ordinal</i>	(1) <i>Full Sample</i>				(2) <i>Inc_Relv > 0</i>			
	Prediction	Mean (z-stat)	P-value	% Change in Odds	Prediction	Mean (z-stat)	P-value	% Change in Odds
<i>FASB_Pre-CF</i>	?	-0.42* (-1.65)	0.10	-34%				
<i>FASB_Post-CF</i>	+	0.54*** (2.36)	0.01	72%	+	1.70*** (3.72)	0.00	449%
<i>POS_{others}_Ordinal</i>	+	0.79*** (6.24)	0.00	122%	+	1.14*** (6.80)	0.00	211%
<i>FASB_Post-CF – FASB_Pre-CF [Chi-square test]</i>	+	0.96*** [17.53]	0.00	n/a				
<i>Fixed effects?</i>		Yes; Sponsoring Organization				Yes; Sponsoring Organization		
<i>Robust SE?</i>		Yes; clustered by Sponsoring Organization				Yes; clustered by Sponsoring Organization		
<i>Observations</i>			511				170	
<i>Pseudo R²</i>			9.0%				12.4%	

Table 8 provides results for the estimation of equation 4, and is used for testing Hypothesis 3. Each observation reflects a comment letter sent by one of the following five sponsoring organizations (inclusive of former names and predecessor organizations): AICPA, FEI, IMA, CFA Institute, and AAA. I drop all comment letters where the related Statement has fewer than two matched sponsoring organization positions. I use an ordered logit regression because the dependent variable consists of five ordered categories. Column (1) includes the full sample of all remaining comment letters, while column (2) includes only comment letters on standards increasing accounting relevance (i.e. where *Inc_Relv* is greater than zero). For brevity I omit: (i) the estimated coefficients relating to the sponsoring organization fixed effects (μ_1), (ii) the estimated coefficients on the interaction terms that capture organizational preferences on A&L standards (μ_2) (column (1) only), and (iii) the estimated constants (i.e. the “cut-points”).

POS_m_Ordinal represents the position of sponsoring organization *m* on each comment letter. I monotonically transform the original comment letter positions which took values {0.0, 0.25, 0.5, 0.75, 1.0} such that the variable *POS_m_Ordinal* takes integer values {1, 2, 3, 4, 5}. The final value within each column provides the percentage change in odds for an increase in *POS_m_Ordinal* for a unit increase in the independent variable.

FASB_Pre-CF [*FASB_Post-CF*] is an indicator variable equal to unity when one of the signatories on the comment letter was later selected to the FASB in the pre-CF [post-CF] period; there are 22 [37] such letters in column (1) and 1 [16] in column (2). I omit *FASB_Pre-CF* in column 2 because there is only one related comment letter to estimate the coefficient. Results from a Chi-square test of the difference in the estimated coefficients on *FASB_Pre-CF* and *FASB_Post-CF* in column (1) are included above. The variable *POS_{others}_Ordinal* is the average of the ordinal comment letter positions (*POS_m_Ordinal*) taken by the other sponsoring organizations on the related Statement.

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level

P-values under the z-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

TABLE 9. List of dissenting argument types on fair value Statements

Panel A. Inside dissent on fair value Statements among pre-CF and post-CF FASB members

	<i>Pre-CF</i>	<i>Post-CF</i>	H_a	Difference	<i>Post-CF – Pre-CF</i>		
					Approx. d.f.	T-stat	P-value
Total votes	55	212					
Total dissents	16	18					
Dissent %	29.1%	8.5%					
Total # inside dissents	3	11					
% of dissent from inside	18.8%	61.1%	+	42.3%***	31.71	2.73	0.005
Dissent % (excl. inside dissent)	23.6%	3.3%					

Panel B. List of fair value Statements with post-CF inside dissent

SFAS	Title	Total Votes	Total Dissents	< FV	> FV
114	Accounting by Creditors for Impairment of a Loan	6	2	0	2
115	Accounting for Certain Investments in Debt and Equity Securities	6	2	0	2
125	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	7	1	0	1
140	Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities	6	1	0	1
146	Accounting for Costs Associated with Exit or Disposal Activities	7	1	0	1
155	Accounting for Certain Hybrid Financial Instruments	7	1	0	1
156	Accounting for Servicing of Financial Assets	7	1	0	1
159	The Fair Value Option for Financial Assets and Financial Liabilities	7	2	0	2

Panel A of Table 9 provides results for inside dissent on fair value Statements among pre- and post-CF members, and is used for testing Hypothesis 4. Panel B provides the Statements on which I observe post-CF inside dissent.

I define a fair value Statement as those with a *Manual_inc_relv* value greater than zero. *Manual_inc_relv* is a metric derived by Allen and Ramanna (2013) that operationalizes standards increasing in accounting relevance as those that include some measure of fair value accounting. The measure is derived from a manual assessment from two independent reviewers.

In Panel A, column 2 (column 3) provides data for pre-CF FASB members (post-CF FASB members). Total votes and Total dissents are hand-collected from each Statement. When a FASB member abstains, it is not included as a vote within the “Total votes” above. The first percentage provided is Total dissents as a percentage of Total votes.

Dissenting explanations are hand-collected from each Statement. Each dissenting explanation is hand-coded and divided into various dissenting arguments (see Appendix 6 for a detailed explanation of the coding process). In Panel A, “Total # inside dissents” represents the number of

dissenting arguments explicitly calling for greater use of fair values, which for analytical purposes is limited to one argument per dissenter. For brevity I omit data on all other dissenting arguments, as they are not needed to test Hypothesis 4. The second percentage provided is the total number of inside dissenting arguments as a percentage of total dissents. The third (and final) percentage provided is the total number of dissents excluding those with inside dissenting arguments as a percentage of total votes.

The difference in Panel A is calculated using a Welch's t-test for unpaired data with unequal variances. The "Approx. d.f." value is the approximate degrees of freedom in the calculation of the difference, and is determined using the Welch-Satterthwaite equation.

Panel B provides the Statements on which I observe post-CF inside dissent. Dissenting arguments that explicitly call for lesser (greater) use of fair values are included in column 5 (6), and for analytical purposes are limited to one fair value argument per dissenter. See Appendix 7 for the text of all dissenting arguments included in column 6.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level

P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)