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Durocher, Sylvain; Georgiou, Omiros

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Framing accounting for goodwill: intractable controversies between users and standard setters

Abstract

How to account for goodwill arising from business combinations has proven to be one the most controversial topics for the standardisation, preparation, and audit of financial reports. Given its contested nature, and recent debates about improper goodwill accounting by failing companies, standard setters are currently reconsidering existing recognition, measurement, and disclosure requirements. In this study, we explore the views of a relatively neglected group of stakeholders in the financial reporting policy-making arena – financial statement users. We draw on empirical evidence from interviews with financial analysts and from responses by analysts to IASB and EFRAG consultations. We mobilise framing theory as used in public policy studies to analyse how users make sense of goodwill accounting information as compared to standard setters. Our key finding is the plurality of colliding frames between users and standard setters that remain intractable. Our analysis reveals that users' interest in management's accountability on acquisitions cannot fit easily into the financial reporting frame. Not only are claims by standard setters about the value relevance of goodwill impairments found not to be experienced in practice, but also we discover that users question the benefits of standard setters working in this area, while they take recourse to 'street numbers' for their analysis. We interpret the intractability we discover as putting into question public policy claims that accounting policies are developed with a commitment to serve the public interest.

Introduction

How to account for goodwill arising from business combinations has historically been one of accounting's biggest unresolved issues (Amel-Zadeh et al., 2016; Bloom, 2009; Ding et al., 2008). The issue has gained prominence since the early 2000s with the increasing M&A activity, which results in many companies recognising high values of goodwill on their balance sheets. Policy makers have been experimenting with various ways of standardising accounting for goodwill. These ways have often been characterised as the outcomes of politics, in terms of the desirability for preparer discretion, rather than the quest for the most economically efficient accounting solution (Ramanna, 2008). For companies applying IFRSs, accounting for goodwill changed drastically in 2004 with the issuance of IFRS 3 *Business Combinations* that replaced the amortisation of goodwill with an annual impairment test and broadened the range of intangible assets recognised separately, rather than included in goodwill.[1] The post implementation review of IFRS 3 (IASB, 2015) has revealed serious concerns with the information resulting from the

[1] The issuance of IFRS 3 was accompanied by revisions to IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. Similar requirements were introduced earlier for companies applying US GAAP by the FASB with SFAS 141 *Business Combinations* and SFAS 142 *Goodwill and Other Intangible Assets*, both issued in 2001. Further revisions to IFRS 3, IAS 36, and IAS 38 were made in 2008.

application of the standard and has thus prompted renewed interest in the issue of goodwill accounting.

Regulators have joined in the debate raising concerns with the rigor of application of IFRS 3, especially in relation to the measurement of goodwill (e.g., EFRAG, 2017; EFRAG et al., 2014; ESMA, 2014), while practitioner surveys (FRC, 2014; KPMG, 2014) show investors and analysts are concerned with the adequacy of the information for their decisions. Concerns are also found in the financial press in relation to recent accounting scandals. For example, Ford and Marriage (2018) write in the FT about goodwill accounting being one of the causes of the recent high-profile collapse of Carillion, as the company failed to impair its goodwill asset while using it to collateralise acquisition debt. In a follow-up project to the post implementation review, the IASB is exploring how companies can provide more useful information to investors by simplifying the requirements for how goodwill is accounted, including whether to reintroduce amortisation of goodwill and, if not, how to improve the effectiveness of the impairment test (IASB, 2020).[2] In this story, however, how actual users of financial reports view reported goodwill accounting information has received little attention by standard setters.

This may seem unsurprising given that standard setters prefer to 'imagine' financial statement users' needs during standard-setting processes, rather than obtain these empirically. This provides them with flexibility to promulgate practices based on their own visualisations of what constitutes decision-useful information to users (Young, 2006) who remain a symbolic rhetorical category that lends legitimacy to the standards developed (Durocher & Fortin, 2010; McCartney, 2004; Pelger & Spieß, 2017; Young, 2003; Williams & Ravenscroft, 2015). In fact, attempts by the IASB to engage more with users do not lead to their views being incorporated in the standards developed (Bhimani et al., 2019). Instead, what continues to be a key reference in shaping accounting standards is a notion of a 'made up' user as a generic and passive *homo economicus,* which is constructed and operationalised in regulatory discourses by the main stakeholders, including users themselves (Stenka & Jaworska, 2019). However, not many would doubt that for accounting for goodwill, a topic of so much controversy and indeterminacy, how financial statements users experience reported numbers is intriguing. This is so because research on the consumption of accounting information provides us with an opportunity to see how accounting standards are translated by market actors (Georgiou et al., 2021; Robson et al., 2017). Studying 'linkages' between users and standard-setting processes (Durocher & Gendron, 2011) in a case with such value uncertainty can inform us about the general worth of accounting in practice (Georgiou, 2018).

The research questions guiding our study are: how do financial statement users use and perceive information for goodwill arising from business combinations?, why do such uses and perceptions occur?, and what do such uses and perceptions imply for the public policy goals of standard-setting? To address these questions we use information from interviewing 22 buy-side

[2] The FASB has recently issued an amendment to Topic 350 *Intangibles – Goodwill and Other* (FASB, 2017), simplifying how companies assess goodwill for impairment. As amended, the goodwill impairment test consists of only one step of comparing the fair value of a reporting unit with its carrying amount. A second step, which required companies to compare the implied fair value of goodwill to its carrying value, has been eliminated.

and sell-side analysts (mainly from the UK), from analysing responses by such analysts to IASB and EFRAG consultations, and from observing meetings between analysts and the IASB. The theory of 'framing' as used in public policy studies guided our data collection and analysis. Originating from Goffman (1974, p. 21), frames are 'schemata of interpretation' that allow individuals or groups 'to locate, perceive, identify, and label' events and occurrences, thus rendering meaning, organising experiences, and guiding actions. We use the concept of 'framing' here as a heuristic to explore how analysts organise their thoughts about goodwill accounting, how they make sense of its use and usefulness. The analysis enables us to explore how users reflect on frames 'imposed' on them, in the sense that they do not have much control over the debate on an accounting problem. We discover a plurality of frames that collide between those of users and standard setters and yet remain intractable (Schön & Rein, 1994). This intractability leads us to conclude that how users frame goodwill accounting is unable to assist with the IASB's preoccupation with technical issues, such as whether goodwill should be amortised rather than impaired, or what changes need to be made to how the impairment test is calculated. It appears that users' interest in management's accountability and strategy on acquisitions cannot fit easily into the financial reporting frame. The intractability is therefore most likely to persist unless there is a drastic re-framing of the problem of accounting for goodwill and its suggested solutions. The situation we discover has consequences for the social significance of accounting standards.

The paper contributes to the financial accounting literature in three ways. First, it adds to our knowledge about goodwill accounting. By providing qualitative evidence from physical readers of financial reports, it provides a different perspective to existing literature that has mostly focused on investigating market reactions to goodwill accounting information (d'Arcy & Tarca, 2018), and on how this information is prepared and audited (Ayres et al., 2019; Petersen & Plenborg, 2010). Second, the paper contributes to the body of knowledge on accounting standard-setting. It complements recently published papers such as Georgiou (2018) on how users and standard setters hold different evaluative principles about specific accounting matters. We go a step further to Georgiou (2018) here by showing that these evaluations are framed so differently that they become intractable. This intractability enables us to provide insights into how the 'user-needs approach' deployed in standard-setting discourses (Baudot, 2018; Chahed, 2021; Erb & Pelger, 2015; Pelger, 2016; Pelger & Spieß, 2017; Stenka & Jaworska, 2019) plays out when actual users come to interpret the information resulting from the standards. We also add to insights about how tensions in financial reporting regulation relate to the framing underlying the requirements of the standards themselves and not merely to their imperfect implementation (Hayoun, 2019). The intractability of frames we discover also enables us to reflect on standard setters' public policy claims that their work is designed to serve the public interest (e.g., Hoogervorst & Prada, 2015). Third, we aspire to contribute to the use of the theory of framing in accounting literature (see e.g., Lorino et al., 2017) by exploring how readers of financial statements respond to a frame 'imposed' on accounting by policy makers.

The paper is structured as follows: in the next section, we review existing literature bringing out the problem we seek to address. In the following section, we briefly outline the standard-setting context on accounting for goodwill arising from business combinations. We then introduce the theoretical foundations that underpinned our data collection and analysis. The research design and methodology are then presented. This is followed by the presentation and analysis of our findings. The paper ends with a discussion of our findings and conclusions.

Previous research on framing accounting problems and their solutions

How standard setters construct accounting issues as particular kinds of accounting problems, and how they assess the feasibility and appropriateness of various possibilities as solutions to such problems, has received considerable research attention. Studies document a central consideration of standard setters being to produce standards that will result in information that is useful, for mostly valuation decisions, to certain designated users – existing and potential investors and lenders (Pelger, 2016; Williams & Ravenscroft, 2015; Young, 2006). The qualities that should make this information useful, such as relevance, faithful representation, and comparability, guide standard setters' choices of policies (Erb & Pelger, 2015). Standard-setting decisions also depend upon, and are constrained by, traditional concerns with recognition, measurement, and disclosure of accounting items, relating to the aim of producing information that will be useful to imagined economic actors (Young, 1996). Ideas drawn from financial economics have been particularly influential in recent developments (Chiapello, 2016; Power, 2010; Pucci & Skærbæk, 2020; Zhang & Andrew, 2021). This framing of standard setters, centred on decision-usefulness, is based on predetermined ideals pronounced largely in the conceptual framework (IASB, 2018).

Nevertheless, how financial statement users themselves frame accounting problems, and appropriate standard-setting action to these, remains largely unexamined. Quantitative studies, investigating the links between accounting information and the stock market, generally find that accounting information is relevant for equity valuation, while this relevance varies across firms, countries, and periods (Hail, 2013). The very few survey-based studies eliciting direct evidence on decision-usefulness provide us with mixed insights. Some studies find that users consider financial statements relevant for investment decisions, and more so for valuing firms rather than for assessing the performance of managers (Cascino et al., 2021; Davern et al., 2019). Other studies show that users challenge the presumed usefulness of accounting information to investment analysis and are sceptical of accounting trying to value the components of a business (Georgiou, 2018; Georgiou et al., 2021). Studies also show how users' perceptions about the characteristics of standard-setting processes affect the legitimacy they attribute to these processes (Durocher et al., 2019) and how users, in their limited participation, do not blindly adhere to standard setters' suggested proposals couched in resulting in a faithful representation of economic reality (Durocher & Fortin, 2021). However, researchers have not taken an active interest in how users frame what makes accounting information useful and, thus, our understandings of this remain rather limited. This is particularly so for accounting for specific business activities.

In the case of goodwill accounting information, usefulness has been investigated extensively by positivist accounting researchers with a focus on how markets react to this information. This body of research provides us with mixed evidence. For recognised goodwill, some studies show a positive relationship between the reported goodwill of entities and their market values, thereby indicating that investors in the markets behave as if they view goodwill as a relevant asset (e.g., Hamberg & Beisland, 2014). Other studies show a decline in the value relevance of goodwill when moving from local GAAPs to IFRSs, suggesting that investors do not find recognised goodwill to contain new information (e.g., Ji & Lu, 2014). Similar variation in findings exists in relation to the subsequent measurement of goodwill. Some studies show that the market reacts negatively to impairments which indicates that the information is value relevant (e.g., Chalmers et al., 2012; Knauer & Wöhrmann, 2016), implying that analysts use the information to correctly revise their expectations downwards. Other studies show that there is no significant reaction by the market to impairment information (e.g., Hamberg et al., 2011; Ji and Lu, 2014), implying that it does not allow analysts to correctly adjust their future projections. This may be explained by a lack of timeliness in impairment recognition (Bond et al., 2016). Disclosures of goodwill and goodwill impairment are found to enable analysts to better interpret the accounting numbers only when companies comply highly with the requirements of IFRSs (Baboukardos & Rimmel, 2014; Glaum et al., 2018).

These researchers generally agree that value relevance is associated with firm-level and country-level institutional factors (see d'Arcy & Tarca, 2018; Schatt et al., 2016). For example, goodwill impairment is influenced by managerial incentives for earnings management to avoid or reduce reporting impairment (Avallone & Quagli, 2015; Lhaopadchan, 2010), or to report impairment earlier when there is a change of CEOs (Masters-Stout et al., 2008). Manipulation of goodwill impairments is found to be more prevalent in countries with a weak corporate governance system, such as in China (Han et al., 2021) and in Spain (Giner & Pardo, 2015). Interestingly, that value relevance is found to be associated with institutional factors is interpreted by d'Arcy and Tarca (2018) as an implementation, rather than as a conceptual, matter with IFRSs. That is, variation in value relevance is attributed more to compliance with the requirements of IFRSs rather than with the requirements themselves. We currently do not know much about how users of financial reports themselves view the relevance of goodwill accounting information in their financial analysis work and how they see this relevance relating to the requirements of accounting standards and/or to their application by specific firms.

Another line of positivist research has been concerned with the preparation and audit of goodwill accounting information. These studies usually argue that the requirements of the standards are too complicated and involve a substantial amount of judgement especially with measuring goodwill after the acquisition (Ramanna, 2008). The judgement involved results in inconsistencies in the implementation of IAS 36 in relation to how firms define a cash-generating unit and how they estimate the recoverable amount (Petersen & Plenborg, 2010), as well as in resisting compliance with requirements about disclosure (Carlin & Finch, 2010; Glaum et al., 2013). Auditing goodwill impairments poses particular challenges for auditors in terms of the misalignment of incentives it creates between managers who likely prefer to avoid recording an impairment and auditors who seek to minimise the bias in managers' impairment testing (Ayres et al., 2019). These studies are however silent on how these issues of preparing and auditing goodwill valuations relate to the use of the resulting information in financial analysis processes.

Remarkably very little attention has been devoted to goodwill accounting by interpretive accounting researchers. Two recently published studies focus on investigating goodwill impairments. Huikku et al. (2017) explore how goodwill impairments are calculated and how they are made reliable drawing on the experiences of actors in Finland. They find that a network of human actors, such as auditors, and non-human actants, such as traces of past events, rather than a single person or mind, calculates goodwill impairments. These preparers usually use traces not specific to the firm in their calculation, such as negotiated budgets, industry and economy averages, benchmark WACC elements, and it is the fact that these traces are produced by external parties that renders impairments more reliable. The authors argue that their findings imply that what readers of financial reports are provided with is less concerned with the particular entrepreneurial activities of the firm and more with trends inside and outside the firm.[3] Sandell and Svensson (2017), drawing on annual reports of Swedish companies, show how, in addition to its technical-calculative aspects, goodwill impairment is also a matter of writing. The authors find that managers use rhetoric to communicate the causes of impairment to readers of financial reports. Our aim here is to complement these studies by focusing on how users themselves make sense of calculations about goodwill and the narrative that accompanies these.

It is thus evident that what is missing so far is *how* goodwill accounting information is used and perceived in practice. Relatedly, we do not have explanations for *why* such uses and perceptions occur. As mentioned above, we therefore formulated our research questions as: how do financial statement users use and perceive information for goodwill arising from business combinations?, why do such uses and perceptions occur?, and what do such uses and perceptions imply for the public policy goals of standard-setting? Drawing on the theory of framing as used in public policy studies to interpret our findings led us to contrast the users' framing of goodwill accounting with that of standard setters. How standard setters construct goodwill arising from business combinations as an accounting problem, and suggested solutions to this, is taken from existing relevant standards and proposals discussed next.

Accounting for goodwill arising from business combinations

The policy problem studied here is how to account for the situation when the amount a company pays (consideration) to acquire another business exceeds the fair value of the identifiable assets and liabilities acquired. According to IFRS 3 (para. 32), the excess amount gives rise to goodwill. The standard explains that an acquirer is willing to pay for goodwill because it expects to derive other economic benefits from the acquisition, such as future synergies, or benefits from resources that are not reported in the balance sheet separately on acquisition, for example, an assembled workforce (IFRS 3, para. BC316). The acquiring company is required to recognise goodwill as an intangible asset on its balance sheet as it meets the definition of an asset according to the conceptual framework: it represents resources controlled by the entity from which future economic benefits are expected to flow (IFRS 3, para. BC323).[4]

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[3] Barker and Schulte (2017) provide similar insights. In discussing challenges with representing the market perspective as required by IFRS 13, they provide an example where determining the fair value of a CGU using information from the market was not possible as the level 2 data which was available was not comparable to the operations of the reporting entity. The consequence of this was to represent the entity's own perspective, rather than the market perspective.

[4] In cases where the fair value of the net assets acquired exceeds the consideration (usually termed 'negative goodwill'), the acquirer is asked to recognise the resulting gain in profit or loss on the acquisition date (IFRS 3, para. 34).

As goodwill is measured as a residual, the recognition of other intangible assets is connected to the problem of how to account for goodwill. Current requirements have removed earlier restrictions on recognising these other intangibles. IAS 38 (para. 33) prescribes that intangible assets acquired in business combinations always fulfil the criterion that future economic benefits embodied in the asset will flow to the entity. In addition, if such an asset is separable, or if it arises from contractual or other legal rights, there is sufficient information to measure reliably the fair value of the asset (ibid.). The IASB explains that the reliability of measurement criterion is not a concern for recognising these assets, as recognising them at fair value provides better information to financial statement users, even if a significant degree of judgement is required (IFRS 3, para. BC174).

How to account for the subsequent measurement of goodwill is an additional substantial area of controversy given the complexity and subjectivity involved. The requirement to amortise goodwill over its useful life was replaced with a requirement to test goodwill for impairment annually with IFRS 3 (para. B69). The IASB argued that testing goodwill for impairment, compared to amortising it, provides more useful information to users of financial statements (IAS 36, para. BC131G). The requirements for the impairment test are included in IAS 36. Since goodwill does not generate cash flows independently of other assets, or groups of assets, it is allocated to a cash generating unit (CGU)[5] (IAS 36, para.80). The CGU must be tested for impairment annually and if its recoverable amount is less than its carrying amount, the entity must recognise the impairment loss in profit or loss (IAS 36, para. 104). The recoverable amount of a CGU is the higher of its fair value less costs of disposal and its value in use (IAS 36, para. 6). Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (IFRS 13, para. 9), and value in use is the present value of the future cash flows expected to be derived from an asset or CGU (IAS 36, para. 6). An impairment loss recognised for goodwill cannot be reversed in a subsequent period as doing so would be like recognising internally generated goodwill, which is prohibited by IAS 38 (IAS 36, paras. 124-125).

Existing standards also prescribe what information is to be disclosed about goodwill. The requirements are connected to enabling users to assess the effects of the combination on future profits and cash flows. IFRS 3 (para. 59) asks the acquirer to disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination. A qualitative description of the factors that make up the goodwill recognised is required (IFRS 3, para. B64), along with a reconciliation of the carrying amount of goodwill at the beginning and end of the reporting period (IFRS 3, para. B67). In addition to this, IAS 36 (para. 130) requires disclosure of detailed information about the calculation of the recoverable amount of the CGU as well as a description of the events and circumstances that led to the recognition of the goodwill impairment. The IASB emphasises that the information disclosed must assist users in evaluating the reliability of estimates used by management (IAS 36, paras. BC201-202).

[5] A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets (IAS 36, para. 6).

It is worth noting that in the standards related to goodwill (IFRS 3, IAS 36, and IAS 38), the IASB makes several references to the conceptual framework (IASB, 2018), notably when it defines the goodwill asset and its impairment, when it discusses the recognition of these elements in the financial statements, the decision-usefulness of these elements, and the comparability and costs/benefits related to goodwill-related accounting information.

Theoretical underpinnings

In order to discover how financial statement users use and perceive goodwill accounting information, and the reasons behind these uses and perceptions, we need a theory that will help us bring to light how users understand the world around them. Framing theory is fruitful to this end. According to Goffman (1974, p. 21), frames are 'schemata of interpretation' that allow individuals to organise their understanding of the world around them to make complex situations intelligible. This theory will enable us to examine how users frame goodwill accounting information, and will allow us to compare users' frames to standard setters' frames.

Framing theory has been mainly used in the social psychology literature to investigate social movements (e.g., Benford & Snow, 2000; Snow et al., 1986). As van Hulst and Yanow (2016, p. 95) summarise, social movement theorists 'typically focus on the strategic […] character of the different frame groups develop with respect to issues of concern to them, altering their positions […] to enhance the possibility of alliances and coalitions'. Social movement studies, including most accounting studies (Bay, 2011; Brivot et al., 2016; Himick & Audousset-Coulier, 2016; Kaarbøe & Robbestad, 2016; Roussy & Brivot, 2016; Yang & Modell, 2015), typically develop, or use, taxonomies of framing tasks to understand how protagonists strategically frame issues, striving to reach their ends. However, our aim is to highlight how users view accounting for goodwill and then to compare their views with that of standard setters. We know users typically do not strive to convince standard setters to adopt their views as they don't actively participate in standard-setting processes (Durocher et al., 2007; Georgiou, 2010; Jorrisen et al., 2013; Larson, 2007). On their side, standard setters tend to make up users' needs (Young, 2006) and there are typically no confrontations between standard setters' and users' views (Georgiou, 2018). Framing theory as used by social movement scientists is thus less relevant to our needs.

Framing theory has also been used in the sociology of finance literature. For instance, Lorino et al. (2017) highlight the mediating role of frames in the context of a negotiation between a retailer and its suppliers and underline the existence of a plurality of competing frames and the occurrence of numerous frame-shifting situations. Kastberg (2014) points out how the notion of overflow suggested by Callon (1998) is useful to understand the incompleteness of framing processes. Vollmer (2007) shows how accounting numbers are consumed among multiple competing meanings. He distinguishes reproductive and consumptive frames and suggests that an actor can transform a number into numerous others by removing it from its original intent. Beunza and Garud (2007) consider financial analysts as frame-makers and demonstrate how their calculative frames drive their investment recommendations. Our study differs from the preceding ones as we focus on accounting policy-making, which leads us to consider another strand of framing literature.

The other discipline in which framing theory has been used in social science is public policy. Framing theory was developed in this area by Donald Schön and Martin Rein to explain what they call 'intractable policy controversies'. Schön and Rein (1994) make a distinction between policy disagreements that can be resolved by examining the facts of the situation and policy controversies that are 'immune to resolution by appeal to the fact' (p. 4). Framing theory enabled them to explain how actors often argue past each other given the incommensurable views in the way they define and frame a given policy problem (Rein & Schön 1991; 1996). They define a frame as 'a perspective from which an amorphous, ill-defined problematic situation can be made sense and acted upon' and framing as 'a way of selecting, organising, interpreting, and making sense of a complex reality as to provide guideposts for knowing, analysing, persuading and acting' (Rein & Schön 1991, p. 263). The way an issue is framed in public policy can determine whether government intervention is necessary and can shape the solutions that are reached.

We adopt a social constructionist stance and conceive of accounting standards as public policies (Lowe et al., 1983; Williams & Ravenscroft, 2015) that determine how the content of financial statements should be identified, measured, and reported. These policies, developed by standard setters such as the IASB and the FASB, have an impact on preparers who must apply these standards in the preparation of corporate financial statements, auditors who must certify the information contained in these statements, and users who must cope with the information provided by these statements. According to Rein and Schön (1991), framing is problematic because it creates multiple social realities in that individuals make different interpretations of the way things are. Indeed, standard setters, preparers, auditors, and users can hold different views about the nature and role of financial information. According to Lowe et al. (1983), each party can approach accounting standard-setting issues in a number of different ways.

In public policy studies, framing theory is used to answer questions such as: 'how should we make sense of intractable policy controversies?' (Schön & Rein, 1994, p. 22) like social security and immigration integration (Scholten & Van Nispen, 2008; Winter, 2006). Therefore, framing theory, as conceived by public policy scientists, provides us with the theoretical underpinnings to make sense of the nature of the views about accounting for goodwill held by financial statement users and how these views relate to those of standard setters. Surprisingly, the public policy approach to frame analysis has not been used in accounting research. One exception is Ascui and Lovell (2011) who refer to public policy research to make sense of the tensions and contradictions in carbon accounting as the result of at least five overlapping frames of reference, namely, physical, political, market-enabling, financial, and social/environmental modes of carbon accounting. Although the authors refer to framing theory, they only briefly refer to framing as used in public policy research.

Synthesising and building on the pioneer work of Schön and Rein, van Hulst and Yanow (2016) suggest framing involves three interconnected acts, namely, sense-making, naming, and storytelling. In policy-making, actors must make sense (or construct the meaning) of the situation in which they are involved. In so doing, previous values, knowledge, and experience are called upon to produce a model of the world that will guide subsequent action. In other words, individuals work to render a specific situation sensible in terms of pre-existing thinking. Sense-making is a way for actors to arrange cues that they perceive from the world around them in order to structure and guide their ongoing perception of reality (Weick, 1995). By understanding that the situation is of a certain kind based on previous experience, individuals can then imagine how it could be handled. This sense-making process can also involve non-human elements (van Hulst & Yanow, 2016). Indeed, actors refer to their entire set of cultural resources in making sense of the situation to which they are confronted.

Naming, which includes selecting and categorising, is another important framing device in social policy (van Hulst & Yanow, 2016). Naming first involves selecting by which 'policy actors draw disparate elements together in a pattern, selecting some things as relevant or important and discarding, backgrounding or ignoring others, occluding other ways of seeing (and acting), and thereby silencing them in policy discourse and ensuing action' (ibid., p. 99). Following the selection process, selected items have to be categorised. Naming and categorising involve identifying things as a 'this' but not a 'that' (ibid., p. 99). By naming, differences are established between normal and abnormal, old and new, friends and enemies, whatever is relevant to the issue at stake.

Beyond sense-making and naming, actors in public policy also engage in storytelling, which is a manner of presenting the situation (van Hulst & Yanow, 2016). Storytelling is used to 'explain […] to an audience what *has been* going on, what *is* going on, and, often, what needs to be done - past, present, and future corresponding to the plot line of a policy story' (ibid., p. 100). It provides a storyline that logically ties together the selected elements of the situation to persuade audiences that the policy corresponds to what needs to be done. Different actors involved, or affected, by public policies might tell a story that 'conveys a very different view of reality and represents a special way of seeing' (Schön & Rein, 1994, p. 26). Storytelling often involves the use of metaphors to carry over 'familiar constellations of ideas' (ibid., p. 26). Policy decision-makers often use metaphors, which are common within their culture (van Hulst & Yanow, 2016).

As Schön and Rein (1994) point out, frames and interests are closely related, although not identical. Frames shape interests and frames may be used to promote interests. In fact, actors often look at public issues in incompatible ways because of their respective interests in the issue at stake.

Framing theory is thus relevant to study standard-setting issues. We use this theory to make sense of the nature of the views held by financial statement users about accounting for goodwill and to compare them to those held by standard setters. Our aim is to uncover the interconnected acts of sense-making, naming, and storytelling used by financial statement users and standard setters when they respectively frame accounting for goodwill. This will help us understand how and why both parties disagree on what is useful information about this issue and whether these disagreements can be managed.

Information collection and analysis

In the following paragraphs, we discuss our research design. Our research approach is iterative, developmental, and interpretative, in the sense that our data collection and analysis evolved together with our understanding of the situation we were studying (Dai et al., 2019). To discover how financial statement users use and perceive goodwill accounting information, we draw upon empirical material from 19 semi-structured interviews with 22 individuals carried out between

February and April 2017. We targeted buy-side and sell-side analysts as our informants as they are usually considered important users of accounting information (Brown et al., 2015; 2016; Imam & Spence, 2016) and are the users who, in principle, would be expected to understand accounting for goodwill. Entering the field where accounting information is used, as called for by Gendron (2009), Kenno et al. (2017), and Power and Gendron (2015), enables us to obtain rare and interesting observations of the social realities of recipients of the financial reporting process. The interviews provide us with a window into how accounting information is processed and given meaning which resonates well with our aspiration to contribute to a 'sociology of financial accounting' (Fogarty & Rogers 2005, p. 331).

Analysts are traditionally hard-to-reach individuals. They are reluctant to talk to researchers due to time pressures and for reasons of confidentiality. In addition, in this project we came across the challenge of analysts thinking accounting for goodwill arising from business combinations is too narrow a topic to hold a long conversation on. To identify interviewees, we carried out an exercise of what goodwill figures were reported by FTSE 100 companies in the previous five years. As a UK bank stood out, we contacted all sell-side analysts covering the bank via e-mail and followed this by cold-calling. This, however, yielded no positive response. The usual response was along the lines of the following:

> The answer to your question [how do you use goodwill accounting information in your work?] though is very short anyway: we ignore it [goodwill]. We look at things ex goodwill and intangibles and are indifferent effectively to goodwill impairments as they are deducted from capital, so make no difference.

We recruited interviewees through informal chats at practitioner events, through personal contacts, and through the conventional snowball approach. We also had the opportunity to send out a request for an interview as an e-mail to members of a user discussion group, which yielded four favourable responses. We were able to interview eight buy-side analysts (three covering equity and five covering credit investments), eight sell-side analysts (all covering equity investments), four analyst representatives having the job of representing analyst views, one standard setter, and one credit rating expert. Our interviewees had an average job experience of 20 years ranging from 8.5 to 41 years. We provide more details about our interviewees in Table 1.

[Insert Table 1 near here]

In total, 15 interviews were conducted face-to-face at the interviewees' place of work in London while four interviews were conducted via phone with interviewees based in Canada, France, Germany, and India. Both authors conducted 15 interviews out of 19. The average interview duration was 65 minutes (ranging from 40 minutes to 95 minutes). We audio-recorded and carefully transcribed all interviews which gave us 453 pages of transcript. We also took notes during and immediately after each interview. Informants were assured anonymity and confidentiality. Our interview research proposal was approved by our universities' ethics boards and interviewees signed a consent form to be interviewed and recorded. After the interview, we sent the transcript to each interviewee for approval and this resulted in seven of them suggesting minor amendments in relation to clarity of language.

Prior to each interview we asked the interviewee to provide us with examples of cases where reported goodwill figures proved challenging in their analysis of the company. Most interviewees provided us with such examples, which we carefully studied before meeting them. For the sell-side analysts we interviewed we also looked up the annual reports of companies they are covering and identified examples of reported goodwill from business combinations to discuss with them. These exercises enabled us to guide our discussion around examples of goodwill figures from annual reports. We used a general interview guide to guide our discussions with the interviewees. A summarised version of this guide is shown in the Appendix.

Our key aim was to get perceptions about the usefulness of goodwill accounting information for financial analysis. To this end, our interviews covered a wide range of issues. In each interview, we requested background information about the interviewee including academic and professional background, their specific role in their firm, their specialisation and investment method analysis employed. We then explored how analysts use goodwill accounting information in their analysis and how this information relates to their valuation metrics. This included probing into whether current IFRS requirements satisfy their informational needs and if anything could be done differently to increase value relevance. After this, we explored specific issues in relation to the relevance and reliability of goodwill reported figures, such as whether the market reacts to goodwill impairment information, and whether an impairment loss is, or can be, predicted. We left normative questions to the end to ensure the main discussion focused on how goodwill information is actually used and perceived. Throughout the process, we made it clear that we were genuinely interested in the work of our interviewees and in their views on accounting. In this way, we 'collaborated' with the interviewees (Kreiner & Mouritsen, 2005) on the construction of new knowledge by having conversations on goodwill information reported by companies in financial reports, their own analytical models, and requirements of accounting standards.

Documentary material and observations supplemented the interviews. In addition to our interview with a standard setter, we carried out a documentary analysis of accounting standards and bases for conclusions to identify how standard setters frame goodwill accounting (see Table 2 for a list of documents examined). Analysis of 15 comment letters submitted by analysts to the recent IASB and EFRAG consultations in relation to the post implementation review of IFRS 3 was also undertaken. One of the authors also observed two IASB-CMAC meetings held at the IASB offices in London providing the opportunity to observe how analysts engage with standard setters on the subject of goodwill accounting. The combination of interviews, documents, and observations enabled us to further engage with the social realities of analysts and their use of accounting information. Details about the comment letters and observations are provided in Table 3.

[Insert Tables 2 and 3 near here]

Our research questions guided the analysis of the information collected. Our aim was to capture some of the answers to our questions both empirically and theoretically. For this, we identified the frames analysts hold about goodwill accounting by coding transcripts manually and having numerous discussions about them. As we identified and debated the theoretical themes, we kept interrogating the transcripts, notes from interviews and observations, and information from comment letters and other documents. We therefore moved back and forth the various empirical material collected and theory to develop an understanding of how goodwill accounting information is framed. We present the empirical narrative below organised around the key themes that emerged in our analysis. Quotations are used throughout the discussion as illustrative examples of the empirical findings.

Intractable views about goodwill information

The following quote from an equity sell-side analyst summarises well the intractable views held by users and standard setters about goodwill accounting information:

> Who is the proponent of having goodwill and having the annual impairment test? I know the standard setters obviously are but I've never quite understood their views on it. (Interviewee 3)[6]

Our empirical data reveals that users and standard setters 'talk past each other' on the issues of accounting for goodwill. Our analysis shed light on the reasons why this is the case. Through our framing theoretical lens, we show that users' and standard setters' frames are so dissimilar that a unified position is unlikely. More importantly, we demonstrate that these divergent frames explain why most users do not use goodwill-related information in their resource allocation decisions and recommendations. Frame divergences between users and standard setters somewhat intertwine. However, for a matter of structure, we present them hereunder first and in more detail in relation to general usefulness issues, followed by issues relating to recognition, measurement and disclosure that are presented more briefly.

General usefulness issues

The first group of frame divergences between users and standard setters that we discuss relates to general usefulness issues.

Financial reporting or financial analysis

Our data reveals that the way in which financial analysts and standard setters make sense of goodwill accounting information is embedded within their broader vision about accounting information in general. As framing theory suggests, sense-making is at play when actors call upon previous values, knowledge, and experience to produce a model of the world that will guide subsequent action (van Hulst & Yanow, 2016).

Standard setters hold what can be called a 'financial reporting frame' when they develop specific accounting standards, and goodwill-related standards are no exceptions. Conceptual frameworks are non-human elements (ibid.) that play an important role in standard setters' sense-making process pertaining to accounting in general, including accounting for goodwill. These frameworks include the results of important naming, more specifically categorising, exercises under which standard setters determine what elements should be labelled as an asset, a liability, a

[6] To protect the anonymity of our interviewees, we do not link the quotations from transcripts with the corresponding individuals in Table 1. Each interviewee was assigned a random number from 1 to 22 which accompanies each quotation in the text. This random number differs from the number shown in the first column of Table 1.

revenue or an expense. Through acts of selecting, they identify criteria to be used to choose what items can be part of each category, in other words to select ‘what is’ and ‘what is not’ (ibid.). Afterwards, these selections and categorisations surface within standard setters’ storytelling exercises when they explain what needs to be done (ibid., p. 100). In their view, goodwill should be reported in the financial statements (IFRS 3, para. BC323) because it meets the definition of an asset set out in the conceptual framework (IASB, 2018, para. 4.3). Similarly, a goodwill impairment loss should be reported in financial statements (IAS 36, para. 60), because it involves a decrease in the goodwill asset, hence meeting the definition of an expense (IASB, 2018, para. 4.69). These requirements, as any other accounting requirement, were established without any explicit knowledge about whether and how this information is taken into consideration by actual users in their financial analyses (Durocher, 2009; Stenka & Jaworska, 2019; Young, 2006).

On their part, financial analysts hold what can be labelled as a ‘financial analysis frame’, under which sense-making, naming, and storytelling are also at play, but in a different manner. Their frame is anchored around what they refer to as ‘economic significance’, which is, in terms of sense-making, a way for them to arrange cues that they perceive from the world around them (van Hulst & Yanow, 2016) in order to structure and guide their ongoing perception of ‘reality’ (Weick, 1995). They perform acts of selecting when they identify items that have economic significance and those that have not. This notion of economic significance is then central in their storytelling exercises when they say they place greater emphasis on accounting information that bears an economic significance and that can be used in their models.

This standard setter representative addresses the distinction between financial reporting and financial analysis we identified:

> I think sometimes when you do outreach with an investor, on their wish list, what they want is something that they would just, say, analyse right away. Which is not necessarily always the same as reporting, and reporting is sort of giving you the raw ingredients and then you as the analyst have to go and assemble those ingredients in your own analysis methodology. (Interviewee 11)

Yet, users almost unanimously consider that goodwill accounting numbers lack economic significance. As this buy-side equity analyst deplores:

> We’re interested in the economics rather than the accounting. So, we try and build the economics through the accounting. […] It is difficult to conclude anything other than that IFRS 3 does not serve either preparers or users well. Both groups frequently adjust the accounting numbers derived from the application of IFRS 3 to provide metrics that better portray the economic reality of business performance. (Interviewee 12)

Economic significance is often mobilised by analysts to contrast the less relevant accounting with the more germane economics. Building the economics through accounting involves many adjustments, as explained by this sell-side equity analyst:

> Basically what we do is review accounting information and translate that into economic returns, so we have a metric that we call cash flow return on investment [CFROI], and what we basically do is we start from net income and we make a series of adjustments, so we add back extraordinary items, we add back depreciation and amortisation, we adjust the reported balance sheet. […] The whole premise of making these adjustments is to get closer to their economic reality, which is ultimately reflected in share price performance, so what we're trying to say is when you make all these adjustments, when you exclude goodwill and include R&D, returns seem to be in line with share price trends, because that's our key selling point. (Interviewee 10)

Our interviewees unanimously mention they need to tweak the numbers in some ways before using them. As suggested previously, investors prefer 'ready-to-use information' (Durocher & Fortin 2021, p. 13) and make all necessary adjustments to get back to 'what is actually happening' in terms of business performance (Georgiou, 2018, p. 1321).

Valuation and/or stewardship role of accounting information

As mentioned above, financial analysts' and standard setters' sense-making about goodwill accounting information is nested within their broader views about accounting information. These broader views relate to the role attributed to financial reporting. Sense-making is a way for actors to arrange cues that they perceive from the world around them (van Hulst & Yanow, 2016). The roles attributed to financial reporting help users and standard setters to structure and guide their ongoing perception of reality (Weick, 1995). As Cascino et al. (2013) summarise, there are two main roles for financial reporting. The first is to provide information for estimating the future cash flows, often referred to as the valuation role. The second is to provide information about the preservation of investors' capital, and the control and incentivisation of managers, referred to as the stewardship role. When they debate about accounting information, decision-usefulness (in relation to valuation and/or stewardship) is a major storytelling device mobilised by users and standard setters. Decision-usefulness provides a storyline that logically ties together the selected elements of the situation to justify that the accounting standard corresponds to what needs to be done (van Hulst & Yanow, 2016).

Decision-usefulness for valuation purposes has taken over decision-usefulness for stewardship purposes in accounting standard-setting (e.g. Benston et al., 2007; Cascino et al., 2016; Pelger, 2016; Power, 2010; Williams & Ravenscroft, 2015). Naming is at play when standard setters, through acts of selecting, determine what type of information is decision-useful for valuation purposes and what type of information is not. A typical example is standard setters' increased preference for fair value accounting within IFRS. Fair value measurements underlie the goodwill residual amount (IFRS 3, para. 32) and the goodwill impairment charge (IAS 36, paras. 6 and 104) reported in financial statements. As Georgiou (2018) points out, in the eyes of standard setters, fair values represent expected future cash flows and are decision-useful for valuation purposes. They are based on exit prices, which embody expectations about the future cash inflows and outflows from the perspective of market participants (IFRS 13, para. BC39).

Users consider goodwill-related information to be of very limited usefulness, providing only marginal insights for stewardship and governance purposes. In terms of sense-making, decision-usefulness for them relates to a datum that can be incorporated in their analyses and models that are built out of their previous values, knowledge, and experience (van Hulst & Yanow, 2016). In terms of storytelling, conversely to standard setters that use decision-usefulness as a storyline to justify their views about accounting for goodwill, users mobilise decision-usefulness as a storyline to emphasise the opposite, that they find this information mostly irrelevant.

The goodwill balance sheet number provides no decision-useful information for most analysts. For this buy-side credit analyst: 'when we look at goodwill it doesn't feed in directly to our analysis of a company'. The reason, as suggested by this other buy-side credit analyst, is that with 'goodwill, [it] obviously gets complicated, you don't know whether it will have actual value, or whether they will be able to get a liquidation value. So, typically, in the absence of any consultation what we typically do is I don't touch the goodwill, I just take that value at zero'.

In the words of a sell-side equity analyst, standard setters are fixated on intangible assets (including goodwill) while these assets provide no useful information:

> I think it is something that [standard setters] struggle with on intangibles in general that they need this amount to go somewhere and they call it goodwill and then there's a way of trying to be market relevant, so like valuing the fair value versus book value. They feel that there's a certain degree of mark-to-market things, when I don't think that really exists on the goodwill. So like once the intangible's there, you've overpaid for it and having it as this asset doesn't make a tonne of sense on my stance. So, I think it's them just again fixated on intangibles and then trying to be clever and assume that they have some fair market value test of assets on the balance sheet. (Interviewee 3)

Overall, most users would not lose much information if goodwill would not be reported on the balance sheet. As this sell-side equity analyst points out:

> I mean it's one of the things like the overarching thesis of what you're asking is 'does goodwill matter?', then the answer is 'kind of'. It's an interesting data point to kind of highlight past acquisitions and amounts paid, it's very easy data points to identify and it's worth then digging in I think from the users of the financial statement side. But does it really matter? No. Like if goodwill disappeared, I wouldn't be sad to see it go but something needs to be there I guess, if that makes sense? (Interviewee 3)

Similarly, the impairment charge reported on the income statement provides no forward-looking informational content for most analysts as it has no impact on future cash flows. For this buy-side credit analyst:

> That's a pure financial approach in terms of the impairment. But effectively there you do the impairment, in terms of cash flow you generate the same cash flows, that does not impact the cash flows. (Interviewee 16)

In consequence, most financial statement users simply ignore goodwill impairment charges and adjust reported earnings numbers, as this credit rating analyst explains:

> I think what we tend to do is we take the reported financials and we make adjustments to those reported financials that are in line with our published criteria. And that doesn't include goodwill impairment. (Interviewee 14)

The following quote from a user representative provides an interesting insight into the limited usefulness attributed to goodwill information:

> Just because it's not a number that goes in their model doesn't mean it's not important information for them. It's kind of like environmental, social and governance issues nowadays. People are talking about that and how does it link to the financial. Sometimes it does have a link to the financial performance of the business, because it will affect turnover or whatever. […] But, it's not always a direct link. (Interviewee 17)

Goodwill impairment charges are thus marginally decision-useful for stewardship purposes. Although analysts are not directly involved in a stewardship relationship between management and the (current) shareholders of a company, holding managers to account is a common storytelling device mobilised by our participants when they speak about impairment charges. They do not include impairment charges in their valuation models, but they think impairment testing and impairment charges are a way to have managers explicitly recognise that they have made a 'bad' acquisition. The following quote from an equity buy-side analyst summarises this view:

> The other thing is that for those of us who really want to hold management to account and thinking about accounting as a way to help you do that, then there is an idea that if the whole purchase value is on the balance sheet, the management has to justify it every year by passing an impairment test. And now that the impairment test is regular, management really can't get away any longer with the fact that market value is indicating a carrying value that's way out of kilter, which is what happened to Company X.[7] So the idea of regular impairment tests is an accountability mechanism. (Interviewee 9)

A few users see a warning signal in goodwill impairment charges, as this quote from a sell-side equity analyst reveals:

> Now obviously management teams don't need to write it off, even when maybe they should, because they can always change the assumptions [used for the impairment test]. So, the fact they're writing it off suggests they're pulling back from that business. So, it's an indication of strategy as well. (Interviewee 15)

But overall, the goodwill and goodwill impairment numbers are not considered decision-useful for valuation purposes by users who need to adjust reported figures to perform their

[7] All examples used by interviewees are anonymised here.

analyses. This buy-side equity analyst summarises well the frame divergence between users and standard setters:

> You have to go back to the fundamentals; is this information of any use? And, I struggle to find a large body of investors or companies who think it's of any use. And, that seemed to go against the whole purpose, against the conceptual framework, against you know. (Interviewee 12)

Overall, financial analysts attribute a marginal stewardship role to goodwill-related accounting information. This finding responds to Pelger's (2016) call for more empirical insights into specific examples of tensions between different conceptions of decision-usefulness. Although decision-usefulness for valuation purposes is taken for granted by standard setters, we discover here that users do not subscribe to this. Instead, they see the decision-usefulness of goodwill accounting information only in terms of marginal stewardship.

Predictive and/or confirmatory value

Standard setters' framing exercises rely upon an important storytelling device. They tend to argue that their standard-setting decisions provide accounting information that is relevant to users as it has a predictive value, a confirmatory (or feedback) value, or both (IASB, 2018, para. 2.7). These notions are documented in accounting conceptual frameworks that, as mentioned above, act as non-human elements that drive standard setters' sense-making processes. Goodwill stems from the application of the acquisition method, which was selected by standard setters because of its superior predictive and feedback values as compared to the pooling of interest method (IFRS 3, paras. BC37 and BC38). Naming is at play here when standard setters select methods based on their respective predictive and/or feedback values. Under the acquisition method, acquired assets and liabilities are measured at fair value, which reflects their expected associated cash flows (IFRS 3, para. BC38). As a residual amount, the goodwill number thus represents the expected future cash flows in excess of the net assets acquired. Goodwill information is thus expected to be used as an input into users' valuation models in order to predict future outcomes. In addition, goodwill impairment charges are expected to provide feedback about previous evaluations.

This frame diverges from the frame users hold, notably in terms of storytelling. Firstly, users maintain that goodwill impairment charges do not provide them with any new information that could be incorporated in their analyses and models. While telling their story (van Hulst & Yanow, 2016), users frequently refer to two main perceived features of goodwill accounting information. First, they refer to goodwill impairment charges as a lagging indicator. Second, they link this lag to management bias in the application of the impairment test. For users, goodwill information has only marginal confirmatory value.

As a buy-side equity analyst mentions, investors and analysts are not surprised by goodwill impairment charges. Their past practice (ibid.) has revealed that the market has already incorporated goodwill impairment charges way before they are reported in financial statements:

> Most analysts and most investors believe that the share price has already correctly captured the impairment a long time prior to the accountants ultimately booking it,

> so that the accounting event has no economic significance when it happens because the share price is already there. So you know, you've effectively got the sort of, if you like, the balance sheet value of the combined entity going along a sort of flat number and the share price is going down because it's pricing in the weak performance of the acquired subsidiary. And then, the impairment is booked and it just snaps book value closer to reality if you like. (Interviewee 22)

This supports previous market-based research that has demonstrated that there is no significant market reaction to impairment information (e.g., Hamberg et al., 2011; Ji & Lu, 2014). Analysts also share the view that goodwill impairment is a lagging indicator partly because of the subjectivity in determining whether a given event justifies the performance of an impairment test (triggering event) and the subjectivity related to the methods and criteria used to perform this test. As this credit rating analyst summarises:

> Accounting standards kind of give you some indicators of impairment, which maybe rely a little bit too much on management judgment. And, management judgment, the flipside of management judgment is management bias. And if there was a more objective list of criteria to say if you see these that's an indication of impairment, that would I think make it more difficult for management to say in our judgment you know, there's no impairment because of x, y, z, because you have a list of more objective and less subjective criteria. (Interviewee 14)

In addition, analysts believe managers tend to be optimistic and to manipulate the assumptions in order to postpone or completely avoid the necessity to recognise any impairment charges, as this user association highlights:

> A key point regarding impairment tests is that this regular calculation is done by the company itself, using its own assumptions (most of them not being disclosed). All seasoned analysts know how flexible are some valuation methods like discounted cash flows, relying on numerous different assumptions. With this process, where the buyer of an asset later decides which 'fair value' this asset is then worth, there is systematic temptation to inflate valuation. (SFAF CL to IASB 2014 and to EFRAG et al. 2014)

The recognition (if any) of goodwill impairment can reportedly be delayed by several years, and frequently happen when there is a change in the management team where the 'big bath' phenomenon usually takes place, as respectively explained by this association of users and this user representative:

> Goodwill impairments are only announced when the management of a group (sometimes the one that decided the business combination) is being replaced. There is a profusion of examples in the European capital markets demonstrating this point over the ten years where IFRS 3 has been applied. (SFAF CL to IASB 2014 and to EFRAG et al. 2014)

> When you have a new chief executive and, you know, the new broom comes in and then they will kitchen sink the value of the asset because it wasn't their fault that Company X bought Company Y, or whatever. (Interviewee 9)

Financial statement users are convincing in their statements that goodwill impairment is a lagging indicator. In their view, they would not have done their job properly if an unexpected goodwill impairment charge would be reported. As this sell-side equity analyst mentions:

> If indeed something is wrong and the company has to take a goodwill impairment to tell us, then we are sleeping at the wheel. (Interviewee 21)

In sum, an important frame divergence between users and standard setters is that the former presume goodwill information has both predictive and confirmatory value whereas the latter attribute at best confirmatory value to this information. The fact standard setters attribute predictive value to goodwill accounting information is coherent with their vision of decision-usefulness for valuation purposes discussed in the previous section. None of these two frames speak to users who view goodwill impairment as a lagging indicator that, to the most, can play a marginal stewardship role.

GAAP numbers vs. street numbers vs. analyst numbers

As Schön and Rein (1994) indicate, storytelling is an act of framing that often involves the use of metaphors to organise ideas. Metaphors naturally surface within the talks of actors while they make sense of the world around them. Users frequently refer to 'GAAP numbers' that relate to those ensuing from the application of IFRS (e.g., Marques, 2010), 'street numbers' that relate to 'non-GAAP' measures published by companies, and their own 'analyst numbers' that also relate to non-GAAP numbers that they build themselves and use in their models and analyses. The GAAP numbers / non-GAAP numbers metaphors are also commonly used by standard setters, but the use each group makes of them clearly highlights their frame divergence.

GAAP numbers are implicit in standard setters' frames. It is a very rich metaphor as it relates to the entire set of institutional rules promulgated by standard setters, in other words their entire body of knowledge (van Hulst & Yanow, 2016). GAAP numbers are the *raison d'être* of standard setters, they are at the heart of their sense-making. The existence of non-GAAP numbers (those numbers that are not specified in its standards) has been a preoccupation for standard setters for a while. In their view, non-GAAP numbers reported by financial statement preparers can be potentially misleading for investors. The IASB is currently considering this issue in its project on 'primary financial statements' (IASB, 2019).

During their testimonies about goodwill accounting information, analysts frequently referred to GAAP numbers, but in a way that that emphasises the irrelevance of these numbers. They use the 'street numbers' metaphor and their own 'analyst numbers' metaphor to emphasise how goodwill asset and impairment figures are usually removed from GAAP numbers to obtain more relevant street and/or analyst numbers. These metaphors are interrelated to analysts' sense-making, as street numbers and analyst numbers refer to data that are included in their analyses and models built from past practice (van Hulst & Yanow, 2016). As this buy-side equity analyst summarises:

> It's common practice [not only for goodwill assets but] for all acquired intangibles to get added back on people's preform non-GAAP numbers. And, I agree that's the right treatment. (Interviewee 18)

Our interviewees unanimously mentioned they avoid using GAAP numbers most of the time during their analysis work. They rather focus on adjusted figures that are better aligned with their needs, as explained by this sell-side equity analyst:

> The *accounting number* is now, so receives so little attention that, it's actually dangerous, you know, because if you think about what's excluded from that. Well if you're looking at the *company number*, it's basically the company's completely free to disregard anything that they choose. The *analyst number* is often, you know, sense-checked, more sensible, but it's only based only on the information that they can garner from the accounts. (our emphasis) (Interviewee 8)

A sell-side equity analyst explains how their in-house analytical framework developed and sold to clients ignores both the goodwill asset and the goodwill impairment charges. S/he mentions that 'we have our own reconciliations and we have our own set rules' and further explains:

> We're not taking goodwill into account, so when we fade those returns we're fading them of returns excluding goodwill completely. […] the associated impairment, any other costs related to acquisitions, restructuring costs, integration costs, we strip those out as well. (Interviewee 10)

Similarly, this credit rating analyst uses an in-house model that removes any goodwill asset and goodwill impairment charges:

> So, we have our own risk-adjusted capital model. So, it looks at capital and our own measure of risk-rated assets. In the capital assessment, we start with the accounting balance sheet but we deduct things that we think are not loss-absorbing forms of capital. So clearly that includes goodwill assets, other intangible assets, deferred tax, losses in terms of where they are on the balance sheet as assets. So, from that perspective we don't look at goodwill. And, clearly if there's a goodwill impairment we don't include that in our earnings analysis. So moving onto earnings, we would treat goodwill impairments as non-recurring items and not in our assessment of what we call 'core earnings'. (Interviewee 14)

Companies develop their own non-GAAP numbers that are designated by the 'street numbers' metaphor by some investors and analysts. Street numbers are reportedly heavily imposed on this community, as this sell-side equity analyst reveals:

> The headline number that is reported is based on the company definition. So, we've had this discussion with our analysts. Even if you disagree, if an analyst disagrees with the way that the company is defining their earnings or any particular measure,

> they find it difficult to publish a forecast that's based on their own definition, because the first thing that will happen is the client will ring you up and say: 'how, what is that number? Why is that so different to the rest of the consensus?' And, so the problem is that actually the starting point is how the company has defined their earnings. Not the GAAP number. […] And, it's so pervasive it's impossible to get away from. So, what our analysts sometimes do is they produce a forecast that's based on the street number. They'll have their own number and possibly also the GAAP number. But, that's, kind of, ranking. GAAP is at the bottom. (Interviewee 8)

The power corporations have on imposing street numbers on analysts is not without consequences. For this buy-side equity analyst, comparability issues are at play:

> I mean some companies will have four, five, six, seven, eight, nine, ten adjustments to their GAAP number and then the tax consequences of that as well which are a whole kind of, you just have to trust them (laughs) on that. […] Some companies won't do non-GAAP and in that case it's the GAAP number. And, that's where the problem starts to arise. So you've got some companies adding back what everyone thinks should be added back and others just saying actually we're going to go for the GAAP number because the GAAP number's the GAAP number. And, so you have non-comparability between two sets of PEs that the market is using. (Interviewee 12)

Indeed, the street numbers vary, but they all exclude goodwill impairment charges. EBITDA (Earnings before interest, tax, depreciation and amortisation) is frequently used, but other numbers are also popular, as summarised by this other buy-side equity analyst:

> Generally speaking what analysts do with the amortisation of intangibles is they ignore it, as in they will be focusing, either they will focus on a metric which is specifically sort of calculated to exclude all amortisation and depreciation, so EBITDA or EBITA where you're including depreciation in your calculation but you're excluding amortisation. […] And, companies will incentivise them to do this as well because the companies will often present their pro-forma results, striking out acquisition intangible amortisation as well. So, you're looking at effectively PBTA, profit before tax and amortisation, or you're looking at earning excluding amortisation, so sort of EEA or something like that. (Interviewee 22)

Many analysts build their consensus around street numbers, and it is reportedly the gap between actual and expected street numbers that has an impact on share prices, as explained by this buy-side equity analyst:

> All the sell side analysts will model their numbers along with where the company sets a consensus and where the company sets its non-GAAP, that's how they model. […] And then, the results come out and you know, it's a non-GAAP number that I'm focused on, not the GAAP earnings because it's the difference between a non-

GAAP number and a non-GAAP expectation that will move the share price. (Interviewee 12)

In sum, analyst numbers and street numbers characterise users' frames, as opposed to GAAP numbers that are implicit in standard setters' frames. Adjustments are required to GAAP numbers before their use by financial analysts. Goodwill assets and goodwill impairment charges are part of these adjustments. Paradoxically, financial statement preparers' and financial statement users' frames are somewhat aligned as the latter rely on the former's categorisations in terms of adjustments to GAAP numbers. These findings resonate with previous research that has documented the existence of non-GAAP metrics elaborated by both managers and analysts, that has shown that the market pays more attention to non-GAAP earnings than to GAAP earnings, and that has suggested impairments charges (in general) are common non-recurring adjustments to GAAP earnings (Black et al., 2018). Our findings specifically show that individual financial statement users focus on non-GAAP measures that specifically exclude goodwill impairment charges.

Comparability

Both standard setters' and users' frames are characterised by an important storytelling device: comparability. As suggested by framing theory, they use comparability to explain what has been done in the past and what needs to be done in the future (van Hulst & Yanow, 2016). However, different actors involved in, or affected by, public policies might tell a story that conveys a very different view of reality (Schön & Rein, 1994). This is exactly what emerged from our data. Analysts and standard setters mobilise comparability very differently.

Standard setters have documented their views on comparability in conceptual frameworks, the non-human elements that, again, play an important role in their sense-making process. They identify comparability as a desired characteristic of accounting information. Furthermore, they perform a non-trivial naming (selecting) exercise when they define what is comparability with the effect of silencing other possible interpretations (Young & Williams, 2010). In the view of standard setters: 'information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date' (IASB, 2018, para. 2.24). In addition, 'comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items' (ibid., para. 2.25). Standard setters' frame focuses on technicalities, requiring standards to be applied uniformly by different organisations and coherently by one organisation over time. Therefore, standard setters stipulate that the acquisition method − from which goodwill emerges − has to be applied by all companies for all business acquisitions (IFRS 3, para. BC39) and preclude companies to decide whether to amortise and/or test goodwill for impairment, as all businesses must only test goodwill for impairment without amortising it (IAS 36, para. BC131C).

In users' storytelling exercises, comparability is mobilised very differently. For them, comparability is about being able to cross-compare companies that adopt different growth strategies. Users strive to compare acquisitive firms to organically-grown firms. As this sell-side equity analyst explains:

> There's only two types of growth; there's organic growth, and growth through acquisitions. And, it's been focused on you know, to a certain extent understanding what that organic growth is because that's a much better source of growth than constantly acquiring to grow. Because when you're acquiring to grow, you're paying for it and when people pay for stuff they usually overpay for it, particularly on the growth side. So, it's understanding the split between those two. That's important as well and accounting I'm not sure it can completely answer those questions. (Interviewee 3)

Indeed, accounting standards do not require companies to distinguish organic growth from growth through acquisitions, they rather focus on the consolidated financial position and results. This deprives users of important information, as this user representative mentions:

> We get a lot of complaints about acquisition accounting. The acquisitive companies are very difficult to understand because you can't really understand where the growth is from an acquisition because now I've doubled in size versus I've actually improved my productivity efficiencies or whatever, and now I'm slightly more profitable and growing. So that organic versus acquisitive growth and profitability, that's very difficult for people to figure out. […] But, it's a fact of life that companies are acquisitive, so that has to be reflected in the financial statements somehow. But, it does add a lot of complexity to understanding. (Interviewee 17)

This frame divergence on the issue of comparability has a direct incidence on how financial statement users deal with goodwill accounting information. Indeed, an imperfect way users find to remedy the situation is to adjust reporting figures to try to put acquisitive and organically-grown firms on the same basis. Users hence tend to ignore goodwill and goodwill impairment charges, as this equity sell-side analyst explains:

> If you're a serial acquirer, for example, goodwill is going to be fairly critical, but our view completely is to take out goodwill and then if you just look at goodwill impairments, what we actually do then is we add back the impairments on net income. […] Because essentially, what we want to say is let's compare two companies on an operating level, and if one company's a serial acquirer and the other one's grown organically, I'm going to have a mismatch because goodwill is then going to distort my balance sheet. (Interviewee 10)

According to this buy-side equity analyst, the failure of accounting standards to make this distinction might incite managers to grow through acquisitions:

> If I'm a chief executive, generally speaking, I will get paid more for running a bigger company. There is a pretty straight financial incentive to being a chief executive of a large company rather than a small one. […] From a management perspective, the market's very poor at differentiating between organic and

> acquisition growth and so acquisition growth is easier than organic, so you do the acquisition growth. (Interviewee 22)

This opportunistic behaviour might have important economic consequences, not least in terms of their impact on poor value creation, as explained by this buy-side credit analyst:

> So, most of the acquisitions are done during up cycles when it is expensive and obviously in these conditions they have no choice but to pay a higher price. And, we know by fact that large M&A transactions do not create any value. I guess it's only 20% of the larger M&A transactions that create value. (Interviewee 16)

All in all, the gap between users' and standard setters' frames in terms of how they envision comparability is so important that it leads users to ignore goodwill information provided in financial statements and to adjust reported numbers.

Costs-benefits

Costs-benefits is another critical storytelling device that characterises both users' and standard setters' frames, but in very different ways. Financial analysts' and standard setters' sense-making process about goodwill accounting information is embedded within their respective broader views (van Hulst & Yanow, 2016) about the cost-benefit issue of providing accounting information. They call upon these broader views to produce a model of the world that will guide subsequent action (ibid.).

In their storytelling exercise, standard setters broadly refer to costs and benefits of promulgated standards. Users should theoretically benefit from financial information, because it is expected to be useful to make resource allocation decisions (IFRS 3, para. BC435). Preparers incur the costs to prepare this information (IFRS 3, para. BC435 and IAS 36, para. BC170), and these costs are ultimately born by shareholders. Analysts and investors also incur costs to process the information included in financial statements (IFRS 3, para. BC435). This storytelling exercise is kept at a general level as costs and benefits are not specified in standards. For instance, standard setters do not indicate the benefits of impairment testing for users or the costs that this test involves. They only refer to the assumed differential preparation costs to support the impairment approach adopted (IAS 36, para. BC170).

Users' sense-making is anchored in their broader vision that accounting information should provide them with benefits that outweigh preparation costs. These benefits are closely linked to the usefulness of accounting information. They mobilise the costs-benefits storytelling device in a more practical and focused way. As discussed above, users consider goodwill impairment charges and impaired goodwill assets of very limited usefulness. Their previous work, in which their sense-making process is anchored, brought them to consider that the limited benefits they get from impairment testing do not justify the important costs to prepare and understand this information. In their storytelling exercise, users argue big audit firms benefit the most from impairment testing. Preparers hire a big four firm to perform the impairment testing, and this work is then reviewed by their auditors.

This equity sell-side analyst that now works as a financial analyst on the preparer side provides a good overview of users' perceptions about impairment testing:

> The more complex you make this, the more audit fees the big four get for it and the more specialised help that they need, you'd be building the models to do the fair market valuation or additional audit work surrounding it. I mean if you recognise goodwill and then expense it quite easily, there'd be no audit work surrounding it year over year. Where with these [existing goodwill accounting requirements] there's quite a lot. So, I do think there's a bit of a big four protection of this kind of subjective accounting area, so that they can charge more fees, yeah. I think that's definitely the case. They're the only party I think that benefits from it. The analysts don't care, people within the [sell-side firm] don't care, I don't care as the person who oversees buying and selling those companies. Internally we don't like it in terms of preparing it, so they're the only ones who benefit from it, right, so, not to be cheesy but it's like fold the money to a certain extent; right? […] And, then even if it did get impaired we'd exclude it from any management content, we'd exclude it from you know, adjusted EPS when we reported externally too. So, it's there, we go through the motions, we have it but we don't view it as value-added. (Interviewee 3)

As the last quote emphasises, goodwill impairment is viewed as a costly and futile exercise. Furthermore, street numbers exclude goodwill impairment charges. Shareholders have to bear the preparation and audit costs related to goodwill impairment information. As investors, shareholders, just like buy-side and sell-side analysts, do not benefit from this information. Only big four firms seem to benefit from this accounting requirement. As this buy-side equity analyst points out:

> Well there's an industry isn't there, there's a whole impairment evaluation industry and it's grown up around this. And, I can't remember who hosted it, it might have been the Institute that hosted a debate two or three years ago and the biggest proponents to carry on with this were the valuation guys. (Interviewee 12)

Users and standard setters thus hold very divergent views on the cost-benefit issue surrounding goodwill impairment. Standard setters assume goodwill impairment benefits users while the latter reportedly get no benefits from the impairment process.

Frame divergences between users and standard setters go beyond general usefulness issues. Additional important divergences relating to recognition, measurement, and presentation issues emerged from our data.

Recognition issues

Frame divergences between users and standard setters also pertain to recognition issues related to goodwill and other goodwill-related assets.

Recognition criteria

Following a selecting exercise (van Hulst & Yanow, 2016), standard setters argue goodwill meets the asset recognition criteria stated in the conceptual framework (IASB, 2018, para. 4.3). They claim goodwill presents an economic resource controlled by the entity as a result of past events (IFRS 3, para. BC323). They also argue goodwill meets the additional criterion for an asset (IASB, 2018, para. 5.7) under which an asset should be recognised only when it provides users with useful information.:

> Although the IASB […] did not explicitly discuss the relevance of information about goodwill, the FASB's analysis of that issue was available […]. In developing SFAS 141, the FASB considered the views of users as reported by the AICPA Special Committee and as expressed by the Financial Accounting Policy Committee (FAPC) of the Association for Investment Management and Research (AIMR) in its 1993 position paper Financial Reporting in the 1990s and Beyond. The FASB observed that users have mixed views about whether goodwill should be recognised as an asset. Some are troubled by the lack of comparability between internally generated goodwill and acquired goodwill that results under present standards, but others do not appear to be particularly bothered by it. However, users appear to be reluctant to give up information about goodwill acquired in a business combination. In the view of the AICPA Special Committee, users want to retain the option of being able to use that information. Similarly, the FAPC said that goodwill should be recognised in financial statements. (IFRS 3, para. BC324-325)

Considering that the AICPA is an association of auditors and that the AIMR (now CFA Institute) does not necessarily represent users' views (Georgiou, 2018), it is not surprising that analysts hold very different views about goodwill recognition..

Users' acts of selecting do not rely on abstract criteria but focus on pragmatic usefulness. For them, an item should only be recognised if it appears to be relevant to their investment decisions and advice. For this buy-side equity analyst, goodwill and all other related intangibles should not be recognised:

> It seems to me that standard setters want to shrink goodwill as much as possible […] I can't think of a single piece of research that I've read in the last ten years that has quoted the book value of brands […] or the book value of customer lists or relationships. So, to me it sort of fails the recognition test in that respect (laughs) because it's *not* useful. And, the frustration is that I think most investors not only find it not useful, it's confusing and actually it's distorting capital markets. […] So, why are we doing it? (emphasis by the interviewee) (Interviewee 12)

Another buy-side equity analyst (Interviewee 22) views goodwill as a sunk cost that, in consequence, should not be recognised on the balance sheet. Furthermore, this buy-side credit analyst remarks that an asset should add value to the business, which is not the case with goodwill:

> So, I have personally a fundamental comment about I don't think goodwill is an asset. […] If I bought a magazine subscription it's an asset. It's not an asset if you never use it again you know, it's an asset if it adds value to the business. So, just because you spent it doesn't mean it has a value. (Interviewee 20)

A user representative further explains that goodwill is not only irrelevant to assess the value of a business, it is also too nebulous to serve as an input to determine this value:

> So goodwill is just something that's too nebulous in a lot of people's minds and they don't see it as effecting the value of a business as opposed to the other factors, like the revenue growth and the margins and stuff. Those affect the value of the business. Goodwill in and of itself doesn't. (Interviewee 17)

The nebulosity surrounding the goodwill number is related to the selecting exercise undertaken by standard setters who discuss goodwill impairment in relation to what they call 'cash generating units' (CGUs). As they acknowledge, 'identifying the lowest level of independent cash inflows for a group of assets would involve judgement' (IAS 36, para. BCZ114). However, they believe 'the concept of cash-generating units is a matter of fact' (IAS 36, para. BCZ114). Considering that CGUs are a matter of fact, while involving judgement, appears paradoxical. Indeed, Bond et al. (2016) reported that asset impairment is problematic as impairments are assessed at the CGU level, which may confound acquired goodwill and internally-generated goodwill. As this standard setter representative explains:

> The deal happens (laughs) and the CGU has this hidden amount of goodwill from just being its own natural CGU plus the excess purchase price for whatever you acquired. And then, that excess purchase price has like a big brother that helps them out of trouble for a really, really long time until the big brother's exhausted. (Interviewee 11)

By allowing internally generated goodwill to offset acquired goodwill impairment provides an indirect way of recognising internally-generated goodwill, that should otherwise not be recorded (IAS 38, para. 38). These selecting exercises do not speak to users as it makes it impossible to clearly follow the goodwill number, as this user association mentions:

> The impairment test mechanism cannot, in a single cash generating unit, separate properly the acquired (and recognised) from the internally generated (and never recognised) goodwill: this failure makes the impairment test inoperable in some instances. Secondly, following allocation of goodwill acquired to various cash generating units, after a disposal of part of some activities, a merger with newly acquired activity, or any reorganization inside the group becomes very difficult: we believe, that over the years, following goodwill in these kinds of situation is highly unrealistic and might open the door to significant accounting arbitrage. (SFAF CL to IASB 2014 and to EFRAG et al. 2014)

In sum, the asset recognition criteria suggested by standard setters do not speak to financial statement users who hold a much more pragmatic view based on usefulness. Conducting the impairment test at the CGU level does not speak to users neither at it leads them to lose track of the acquisition..

Shrinking goodwill vs. other intangible assets

Users' and standard setters' frames about goodwill information also diverge with regard to the level of granularity of intangible assets. Through acts of categorising, standard setters identify various goodwill-related intangible assets that need to be distinctly considered. They state that the purchase price for an acquisition should be allocated to all identifiable net assets (including intangible assets) with any remaining amount being considered as goodwill. Intangible assets are recognised if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably (IAS 38, para. 21). Standard setters consider that these two criteria are automatically met for intangible assets acquired in a business combination that are either separable, or that arise from contractual or legal rights (IAS 38, para. 33).These two criteria were developed on the basis that:

> Decision-usefulness of financial statements would be enhanced if intangible assets acquired in a business combination were distinguished from goodwill. […] Classification in financial statements facilitates analysis by grouping items with essentially similar characteristics and separating items with essentially different characteristics. (IFRS 3, para BC158).

Standard setters shrink the amount recognised as a goodwill arguing it will provide users with more decision-useful information because goodwill and other identifiable assets differ in nature.

The 'shrinking goodwill' metaphor surfaces in users' storytelling exercise when they criticise standard setters for considering identifiable intangible assets distinctly from goodwill. For users, shrinking goodwill is not only costly, it is also useless because these distinct intangibles assets are ignored in their analyses and models. As this buy-side equity analyst argues:

> It seems to me that standard-setters […] want to value all of these other things to try and shrink the goodwill number. The trouble with valuing some of these other things is that no-one finds it useful. (Interviewee 12)

Furthermore, users consider that the value attributed to identifiable intangible assets is not reliable (CFA UK CL to IASB 2014).

In sum, in the users' framing, shrinking the amount recognised as goodwill is a futile and costly exercise. They see no merits in identifying separately intangible assets that relate to goodwill in substance.

Measurement issues - goodwill amortisation vs. goodwill impairment

Frame divergences between users and standard setters also manifest around measurement issues. Through another important naming exercise, standard setters hesitate in categorising goodwill as an asset to be amortised and tested for impairment or an asset that should be only tested for impairment. Indeed, the IFRS 3 implementation review gathered inputs as to whether goodwill amortisation should be brought back into accounting standards (IASB, 2015). The current position was adopted after long dithering between an amortisation and impairment approach, an impairment only approach, or a choice between the two (IAS 36, paras. BC131A to BC136). Dithering persists as standard setters are bringing back goodwill amortisation into the debate.

While standard setters frame this issue in terms of an amortisation and/or impairment problem, users pragmatically consider goodwill amortisation would add nothing useful in financial reporting. This sell-side equity analyst provides a good summary of the thoughts held by investors and analysts:

> It's funny, I've met with a few clients who are quite interested in the IASB's agenda […]. And, none of them could get excited about the prospect of goodwill amortisation. We have intangible amortisation and in general analysts and clients are pretty good at working out which bits they care about. And, anything that, you know, any non-wasting assets in general, they ignore the amortisation charge for. So, if it was introduced, you know, if goodwill amortisation was reintroduced, it would just probably be ignored for most, in most cases for valuation. […] I think that a more comprehensive project on intangibles would be much higher up people's list of priorities than whether to amortise goodwill or not. […] The fact that they're worrying about goodwill amortisation I find quite shocking. (Interviewee 8)

It is worth noting, however, that a minority view expressed by one specific association of users consists of complementing impairment testing with amortisation (EFFAS CL to IASB 2014) and that a preference for goodwill amortisation was also expressed by a group of Japanese users (SAAJ CL to EFRAG et al. 2014). However, a great majority view opposes reintroducing goodwill amortisation. More generally, users see no immediate benefits in goodwill amortisation and/or impairment. They are, in fact, indifferent about normative discussions about how goodwill should be measured since they largely ignore these measurements in their analysis.

Presentation and disclosure issues

Finally, frame divergences between users and standard setters also surface in relation to disclosure issues. In their storytelling exercises, standard setters focus on technical information related to the acquisition. Their general reporting requirement states that "[t]he acquirer shall disclose information that enables users of its financial statements to evaluate the nature and financial effect of a business combination" (IFRS 3, para. 59). Information called for to meet this requirement focuses on the description of the business acquired and the details of the assets purchased and liabilities assumed. (IFRS 3, paras. B64 to B66). Standard setters also ask for a qualitative description of the factors that make up the goodwill recognised (IFRS3, para. B64) and the technicalities surrounding the impairment test for reliability assessment purposes (IAS 36, para. BC205).

Users' storyline about disclosure rather focuses on the impacts of the acquisition. They want to be able to track the actual performance as compared to the expectations that have justified the acquisition in the first place. As this user association explains:

> In practice, once an acquisition has been completed it can often be hard to track its performance. It is important that investors can do this for three reasons: a) to calculate the return on the (often large) investment, which means tracking how much the acquired company has contributed to profits/cash flow; b) to be able to distinguish the acquirer's organic growth from acquired growth; and c) to hold management to account for achieving synergies and other execution targets. (CFA UK CL to IASB 2014)

The opacity surrounding the amalgamation of activities into CGU precludes users to isolate the impact of a new acquisition, as this buy-side credit analyst summarises:

> They're never going to give you this but what you really want to see is how much did the thing actually cost them because often they're used in different ways so they understate the actual cost of something. […] I mean like from assessing whether M&A is value accretive or not, you'd actually like to see cash flow generation versus the cost of that business in the accounts I don't know, ten years post-acquisition […]. And, clearly you know, a couple of years down the line they rejig divisions, they rejig the reporting statement and how it makes more sense to show it like this instead of this and you know, then you lose the whole granularity about well actually do I believe there's any underlying growth or is it just all acquisitions that's driving this. (Interviewee 1)

Standard setters' choice of technical information to be disclosed about acquisitions silences other information that would be more relevant for users (Young, 2003), namely the impacts of these acquisitions.

In this section, we have highlighted numerous frame divergences between financial statement users and standard setters. The way each party makes sense of goodwill accounting, selects relevant features, categorises elements, and presents the situation is so different that a common understanding seems unlikely. Overall, users and standard setters hold intractable views about goodwill-related accounting information.

Discussion

Our analysis suggests that accounting for goodwill is an intractable accounting policy issue. Financial statement users and standard setters hold such divergent frames about this topic that they 'talk past each other' (Goffman, 1974; van Hulst & Yanow, 2016). Our results highlight ten frame divergences that are at the heart of this intractable policy controversy: financial statement users 1) hold a financial analysis frame, while standard setters adopt a financial reporting stance, 2) view goodwill-related accounting information as marginally decision-useful for stewardship purposes, while standard setters attribute to it usefulness mostly for valuation purposes, 3) attribute to goodwill accounting information a limited predictive value, while standard setters attribute to it both predictive and confirmatory value, 4) rely on 'street numbers' to produce 'analyst numbers', whereas standard setters emphasise 'GAAP numbers', 5) would like to compare acquisitive and internally-grown firms, while standard setters envision comparability in a technical manner, 6) think only big accounting firms benefit from the requirement to do the impairment test, while standard setters assume goodwill information benefits to users, 7) view recognition criteria adopted by standard setters not resonating with their own thinking, 8) do not see any benefits in the tendency of standard setters to shrink goodwill by broadening the range of intangible assets identified separately, 9) do not see any usefulness in amortising or impairing goodwill, while standard setters dither between goodwill amortisation and/or impairment, and 10) would like to be informed about the impact of an acquisition, while standard setters focus on the technicalities of disclosures. These ten diverging frames involve, to a various extent, the three interconnected acts of sense-making, naming, and storytelling (ibid.). Overall, how users and standard setters frame goodwill accounting differs sharply for general usefulness, recognition, measurement, and presentation and disclosure issues.

As van Hulst and Yanow (2016) suggest, sense-making plays an important role in framing processes. In accounting policy-making, specifically in the context of accounting for goodwill, we highlight that users and standard setters strive to make sense (or construct the meaning) of the situation in which they are involved by calling upon previous values, knowledge, and experience. The provisions of accounting conceptual frameworks play an important role in how standard setters make sense of standard-setting issues. These provisions theoretically aim, among other things, at ensuring consistency across standards and across time (Benston et al., 2007; Dennis, 2018; Macve, 2010). As a result, proposed and promulgated accounting standards, unsurprisingly, include references to conceptual frameworks (Durocher et al., 2007; Durocher & Fortin, 2010). Our data shows that while writing the goodwill-related accounting standards and basis for conclusions documents, standard setters frequently referred to the definitions, criteria, concepts, and other ideas from accounting conceptual frameworks to support their positions. This finding supports van Hulst and Yanow's (2016) view that non-human elements can play a key role in sense-making processes. However, conceptual frameworks are part of a self-referential rhetoric (Stenka, 2021) and do not demonstrably speak to users of financial statements (Georgiou et al., 2021). In terms of sense-making, users relied on their pre-existing thinking, past experience, analyses and models (van Hulst & Yanow, 2016) to support their views. They do not care whether goodwill assets and goodwill impairment charges meet the definition of an asset or expense stated in conceptual frameworks, whether goodwill includes or excludes other identifiable intangible assets, or whether the recognition criteria stated in the conceptual framework are met. Their sense-making is more practical. They ignore goodwill assets and goodwill impairment charges because this accounting information is not relevant to their analyses and models.

Framing also involves naming. It involves selecting and categorising in order to draw disparate elements together in a pattern (ibid.). Previous research has already suggested that selecting is at play in accounting standard-setting (Chwastiak & Young, 2002; Young, 1996; 2003; 2006). Our findings show that selecting is at play when standard setters determine what type of information, or what method, produces goodwill-related information that is decision-useful for valuation purposes and/or that has predictive, or feedback, value. Selecting is also at play when standard setters determine the criteria to be used to identify goodwill assets and other identifiable assets, and when they choose what method should be used to account for business combinations. It is also at play when they state that only acquired goodwill as opposed to internally-generated goodwill should be recognised, and when they promulgate how to identify a CGU. Finally, selecting is at play when they establish what is meant by comparability and when they choose what information should be disclosed about acquisitions. While constructing various accounting standards, standard setters at the same time silence and shadow alternative accounting options (Young, 2003; 2006). They silence other methods, ways of doing, and information items that would better benefit users in terms of relevance to their analyses and models. Standard-setters' selecting acts are mostly unhelpful to users. Users need to restate financial reports to get rid of goodwill assets and goodwill impairment charges that are irrelevant for their analyses and models. They lack the most important information, that is to say the impacts of acquisitions. In addition, they completely lose track of previous acquisitions and find it impossible to compare acquisitive and organically-grown firms. The only marginal usefulness they attribute to goodwill accounting is to hold managers to account, as the impairment test might force them to admit they have made a bad acquisition. However, financial analysts believe that the goodwill impairment charge remains a lagging indicator and that the impairment test industry mostly benefit big four firms.

Categorising entails for standard setters the labelling of elements as assets, liabilities, revenues, and expenses. Assets are further categorised as current, non-current, tangible, and intangible. Intangible assets are further named and categorised as goodwill and other identifiable intangible assets, some of which having to be amortised and tested for impairment, and others having to be only tested for impairment. According to Young and Williams (2010), standard setters' categorising involves ignoring alternative interpretations of categories that would most probably lead to different conclusions about 'proper' accounting. Our study shows that users do not find goodwill accounting as proper accounting for their needs. For instance, they do not find much value in standard-setters' tendency to shrink goodwill and report other goodwill-related intangible assets separately. For users, these other intangible assets are not dissimilar from goodwill, and they are as irrelevant as goodwill. The impossibility to compare acquisitive and organically-grown firms mentioned above might explain in part why analysts find goodwill assets so irrelevant.

Beyond sense-making and naming, users and standard setters also engage in storytelling to tie together the elements of a situation and justify what needs to be done (van Hulst & Yanow, 2016). Standard setters tell their story about what they see as appropriate accounting practices through their written accounting standards and basis for conclusion documents (Durocher & Fortin, 2010). Young (1996; 2003; 2006) explains how standard setters use rhetorical strategies, such as decision-usefulness, to construct what is appropriate accounting and at the same time to silence alternative accounting treatments. Stenka (2021) shows how such rhetorical strategies are used habitually in regulatory discourses. Metaphors used in such rhetorical strategies are not inconsequential as they frame 'the types of questions, actions or proposals that will be regarded as sensible or even thinkable' (Young 2013, p. 879). In terms of storytelling, conversely to standard setters who use decision-usefulness as a storyline to justify their views about accounting for goodwill, users mobilise decision-usefulness as a storyline to emphasise the opposite, that they find goodwill accounting information mostly irrelevant. Users' storyline is anchored around the notion of economic significance, and they believe goodwill accounting information bears no economic significance, which explains why they ignore this information in their analyses and models. Standard setters' storyline about the predictive, or feedback, value of accounting information, comparability, costs-benefits, and disclosure differs sharply from that embraced by users. Metaphors tend to exacerbate frame divergences, notably when users refer to the higher relevance of 'street numbers' as compared to 'GAAP numbers' and when they criticise standard setters' tendency to shrink goodwill.

Although controversy in standard-setting debates can be productive, intractability can come at a 'price' (Schön & Rein, 1994, p. 8) to the general public interest. The IASB claims that it is working in the public interest by developing standards that bring transparency, accountability, and efficiency in financial markets (e.g., Hoogervorst & Prada, 2015). The intractability we discover here indicates that such claims are questionable. In the case of accounting for goodwill arising from business combinations, IFRSs are not seen to be making companies accountable for such activities to economic actors, let alone to broader stakeholders. Analysts, despite attributing a marginal stewardship role to goodwill accounting information resulting from the application of the standards, do not find this to be informative and trustworthy, so as to facilitate improved capital allocation decisions. The standards are not found to be disciplining manager behaviour in business combinations that are usually seen as having questionable effects on shareholder value and to the public at large. As argued by Meeks and Amel-Zadeh (2020), despite numerous changes in accounting standards, stewardship reporting continues to be a challenge in this area, which is replete with failure.

The intractability we discover is also problematic as it leaves open the question of what criteria govern the design and solutions of policy problems. The official stated aim of 'usefulness to users' serves a hegemonic role guiding the development of accounting policies trumping alternative objectives such as long-term financial stability and sound economic growth. Yet, we discover here that this stated aim is not seen to be operationalised in practice by the target beneficiaries of the policies. While critical analyses of the IASB's approach to the public interest emphasise how it acts as an empty signifier since standards are developed in the exclusive interests of capital market participants (Carter & Warren, 2018; Zhang & Andrew, 2021), we find that analysts' interests do not appear to frame the debate. This raises many question marks over the public accountability of the standard setter. The intractability of the colliding frames between users and standard setters perhaps provides opportunities for functions other than decision-usefulness to be pursued. For example, analysts are concerned about whether policy-making in this area serves more the valuation industry. The effectiveness of the due process, and associated claims of inclusiveness and of serving wider stakeholder interests, are also opened to question, as intractability provides opportunities for groups other than users to influence the outcomes of the standards, since their relationships with standard setters are more manageable. This situation may be posing risks to the democratic processes of developing public policies. Frame intractability implies that commercial interests, that currently remain undebated, may be privileged with insufficient regard for the public interest.

Conclusions

Our findings present three contributions to financial accounting literature. Our first contribution is to our knowledge about goodwill accounting. Although prior research has examined the information content of goodwill indirectly, this is the first paper to present evidence directly from physical readers of financial reports. Their experiences and perceptions reveal that they largely ignore goodwill accounting information in their analyses. This is because the existing accounting model does not provide them with the information needed to assess the performance of each individual acquisition and evaluate whether projected synergies have been realised. Users, in fact, say goodwill impairments is not something they forecast or, more importantly, something that they act upon. As our interviewees told us, they rarely use the release of goodwill information to adjust their future cash flow projections, but they may use it to adjust their view of management. They strip out the goodwill asset and the impairment expense from their analyses to get closer to their view of economic reality, and although described as 'interesting data points', there is no direct link between these data points and projections about future firm performance. According to our interviewees, re-introducing goodwill amortisation would not change this situation. Thus, although value relevance studies investigate whether goodwill information is decision-useful for valuation purposes, we find that users, to the most, find goodwill information marginally decision-useful for stewardship purposes. In addition, financial statement users do not see relevance associated with institutional factors (cf. d'Arcy & Tarca, 2018) as they see the absence of usefulness more as a matter of how accounts are regulated, rather than as a matter of how they are prepared. These findings suggest that standard setters need to be more cautious when referring to evidence from value relevance studies, that goodwill accounting information provides useful information to investors (see e.g. IFRS 3, para. BC327 and IASB 2015), to support their framing on this issue.

In terms of what the readers of financial statements 'see' (Huikku et al., 2017) when standards are translated into financial statements, we find that they are not so much worried with whether reported goodwill impairments reflect the activities of the entity analysed, or whether they reflect trends outside the entity. While managers, financial accountants, external experts, auditors, and audit committees are anxious about reliability issues when calculating goodwill impairment value (ibid.), we find that users' concerns about the lack of relevance precede those about reliability and relate more to how impairment is prescribed by the standard setters. The lack of usefulness is therefore not an implementation or compliance issue, but rather one related to the requirements of the standards to begin with (see also Hayoun, 2019 on this issue). Our findings therefore suggest that, while how goodwill accounting information is prepared, reveals interesting insights (Huikku et al., 2017; Sandell & Svensson, 2017), we need to focus more on how regulation impacts the preparation and interpretation of accounting numbers. This involves analysing policy to explain the nature of controversies between the various stakeholders.

Our second contribution relates to the debate surrounding the links between financial statement users and standard-setting processes. Although we already know that standard setters write standards without considering user needs (Young, 2006) and that users, on their part, do not find information as useful as expected by standard setters (Georgiou, 2018), we do not know how this relationship plays out in the interpretation of particular accounting practices. The intractability of frame controversies we discover leads us to conclude something subtler than Georgiou (2018): users and standard setters do not appear to be 'on the same page'. The views at play while framing the problem of goodwill accounting are not just dissimilar, or disharmonic, but incommensurable. Users and standard setters select, organise, interpret, and make sense of goodwill-related information so differently, as if they do not 'speak the same language'. The nature of the problem of accounting for goodwill and its solutions are characterised by continued uncertainty and ambiguity, which result in colliding frames – similarly to other contentious issues like carbon accounting (Ascui & Lovell, 2011). The respective views of the two groups seem irreconcilable, leading to intractability.

A possible interpretation of intractability is that framing public policy issues may be used by the participants of a debate to reflect and promote their interests (Schön & Rein, 1994). We can therefore say here that the nature of goodwill accounting appears to the two groups in incompatible ways because they have their own interests and perspectives. These interests and perspectives, inadvertently, lead to different problem definitions and solutions. Each group of actors constructs its own view of what is wrong, and what needs fixing, by making sense of the issue in relation to their respective previous values, knowledge, and experience, by selecting different things for attention, by making the 'necessary' ensuing categorisations, and by building a story punctuated with metaphor to support their views. Users' interest in assessing whether a business combination was a good investment decision and whether the acquired business is performing after the acquisition as expected at the time of acquisition, although acknowledged by the IASB (see IASB, 2020), cannot fit easily into the existing financial reporting frame. Instead, the IASB appears to be more concerned with application rather than interpretation issues. It continues to debate improving technical aspects on goodwill accounting and as CRUF has put it in a comment letter, 'the debate on the maths of impairment testing misses the point' (CRUF CL to EFRAG 2017). The 'point' is again being provided with information to assess the returns on the capital employed in the acquired company. Users in fact say they do not want to answer standard setters' existing questions but want to have a different conversation, which requires redefining the problem itself. Reducing the complexity of the impairment test is unlikely to mitigate their concerns as 'simplifying a test that is already not delivering the effect it pretends to deliver is simply not the right direction' (SFAF CL to EFRAG 2018). The 'right direction' would be a broader re-consideration of IFRS 3.

Users' perspectives therefore transgress the realm of the standard-setting frame. This implies that theorising accounting for the performance of the acquisition prior to practice using the standard-setting frame of thinking is very limiting (Georgiou et al., 2021; Young, 1996). For example, theorising goodwill as the present value of excess future returns and prescribing it to be impaired does not evidently result in information appreciated by users. The messiness of the maths of the calculation simply prohibits any meaningful engagement of users in the debate. Users in fact interpret the standard setters' frame of propagating the recognition of as many assets as possible from the purchase consideration and advocating that they can be reliably measured as more linked to measurement idealism (Georgiou & Jack, 2011; Power, 2010) and politics of self-interest (Botzem, 2012) rather than to a pursuit to produce policies that will lead to the reflection of economic reality in financial reports. The situation, as currently conceived by the IASB, resolves the problem of somehow accounting for the transaction of the acquisition, but does not do much about the problem of accounting losing relevance for decision-making (Lev 2018 – see also Ford 2019). A more general implication of the frame divergence we discover is users turning to 'street numbers' for their work. IFRSs are thus creating the paradox that in their efforts to provide more useful numbers to capital market participants, they have made these participants to look for different numbers elsewhere. Our findings show that users either undo the effects of goodwill accounting in their analyses, or use non-GAAP, or street, numbers that have already excluded these effects.

The divergent views we observe between users and standard setters are intractable in that they remain highly 'resistant to resolution by appeal to facts or reasoned argumentation because the parties' conflicting frames determine what counts as a fact and what arguments are taken to be relevant and compelling' (Schön & Rein, 1994, p. 23). However, what accounts for the stubbornness of this intractability between users and standard setters? It appears that there is no reflection on frames held and hence no re-framing, or frame shifting. Both parties fail to critically reflect on their frames. A higher order reflection on the essence of goodwill accounting information for evaluating financial performance is simply not feasible within the standard setter framing. The post implementation review of IFRS 3 is not taken up by standard setters as an opportunity to reflect on their frame, or to be critical of their values. This is evident, for example, in the current proposals to provide users with more useful information through enhanced disclosure about the acquisition (IASB, 2020). There is no agenda by either party to align their frame with each other. The definition of the problem by the IASB precludes the possibility of a solution that would meet user needs and the ambition of the IASB itself to provide decision-useful information to capital market actors. Standard setters continue to debate issues such as how to allocate goodwill to CGUs and how to calculate impairment values, while users continue to increasingly use non-IFRS numbers.

This implies that there is little hope in users and standard setters aligning their understandings of the situation of goodwill accounting. The disparity and non-malleability of the frames observed point to the fragility of the standards if the user needs approach was taken seriously: it could jeopardise the work of the IASB in this case. Redefining the problem could involve a much simpler approach to accounting for goodwill, which would make the IASB's framing look largely unnecessary. As Mennicken and Power (2015) argue, the plasticity characterising goodwill impairment valuations makes their conceptual underpinnings unstable. As Stenka (2021) shows, the habitual reasoning of the IASB guided by notions such as decision-usefulness actually works to supress reflexivity in regulatory processes. An alternative, but more radical, resolution to the controversy observed here would be for the IASB to abandon decision-usefulness as the primary rationale for its work. As Schön and Rein (1994) propose, one must step far enough outside their frame to see that other ways of framing an issue are possible. This means that perhaps user quietness helps the IASB in sustaining its framing (Durocher & Gendron, 2011). Our findings show that attempts by the IASB for greater user engagement do not result in their views being considered in developing or revising standards not because of the general tensions identified by Bhimani et al. (2019), namely resisting influence by a single stakeholder, protecting users from themselves, or serving the wider public interest. Rather, in the case of accounting for goodwill, user views are not considered because the debate takes place in the context of the standard setters' frame, which precludes any meaningful remedy to the intractability of frames observed. This is perhaps more convenient for the IASB (Stenka & Jaworska, 2019) as, in the case that we study, the made-up user makes the project more workable. Our study ultimately points to the importance of probing further into how the unquestioning acceptance of the functional utility of IFRS is anchored on hegemonic ideas rather than lived experiences (Mantzari & Georgiou, 2019), and in how 'the user framing' implicated in standard-setting processes at the micro level (see e.g., Baudot, 2018; Chahed, 2021; Durocher & Fortin, 2021; Erb & Pelger, 2015; Pelger, 2016; Pelger & Spieß, 2017; Stenka & Jaworska, 2019) plays out in the actual use of information in financial analysis processes.

Lastly, our third contribution relates to our use of frame analysis to investigate financial statement users' views on the effects of a particular area of accounting standard-setting. Extant research has largely been preoccupied with two features of frame analysis: how frames are constructed by a single group of actors, and frame shifting in situations of organisational change in which there are usually two frames, one extant and one emergent. We add to this work by employing framing as used in public policy analysis. We draw on Goffman (1974) and follow van Hulst and Yanow's (2016) proposals of making framing analysis more dynamic and political by exploring 'the framing of a policy issue, the framing of relations among framers, and the framing of the policy-making process itself' (p. 97). We study how framees respond to a frame 'imposed' on them and uncover a plurality of colliding frames between the two groups of actors. We hope our study demonstrates the potential of framing as an analytical tool for understanding issues in the mismatch between policy intent and policy effects. Future research can further explore the role of frames in pluralistic understandings of situations and the role of accounting numbers mediating such understandings (see e.g. Lorino et al., 2017). One such example is comprehensive income accounting numbers mediating understandings of company performance. Comprehensive income information is a relatively recent social construction used by standard setters that was developed without a clear knowledge of users' needs.

Our study is not without limitations. For the financial statement users' framing we explore the views and experiences of an actor who is most closely aligned to the made-up user mobilised in standard-setting debates (Stenka & Jaworska, 2019, Williams & Ravenscroft, 2015) for accounting in relation to a specific business activity. Yet, this is not to claim that the frames we discover as held by financial analysts capture the wide varieties of financial statement users and their respective views and experiences on all accounting matters. Future research can focus on exploring how other user groups, such as lenders or regulators, frame particular accounting policy problems. Similarly, we compose the standard setters' overall, or winning, frames (Stenka, 2021), largely from IASB documents. Yet, studying internal debates within the IASB might reveal insights of more fragmented frames, as studies on standard-setting practices at the micro-level show (Baudot, 2018; Klein & Fülbier, 2018; Morley, 2016; Pelger, 2016). Our study has also only touched the surface of how users relate to other stakeholders, like preparers who develop street numbers and valuation experts develop accounting valuations. We hope our study inspires future researchers to explore such issues.

Appendix

Interview guide

1. Introduction
Brief description of project
Signing form agreeing to be recorded and promising anonymity in subsequent outputs

2. Professional background
What is your professional background?
- Professional designation?
- Discipline of studies?

What is your role in your firm?
- How long have you held this position?

What is the intended output of your work?
What is the profile of your team/portfolio?
- Sector specialisation?
- Analytical approach?

3. Use of information on goodwill acquired in business combinations
How do you use goodwill information in your analysis?
How do you use reported goodwill asset / impairment in your analysis? Is goodwill asset / impairment relevant to your analysis?
Do you make any non-GAAP adjustments to goodwill asset / impairment?
How useful are disclosures for goodwill asset / impairment?
- Can you recalculate the asset / impairment amounts?

Does the current treatment of goodwill asset / impairment satisfy your needs?
What provides better information to you?
- Impairment-only approach or amortisation with impairment approach?
- Why?

Are you satisfied with the current rules for impairment testing?
- Is the methodology for impairment more, or less, credible than estimating useful life and amortisation pattern of goodwill?

Which approach provides a better assessment of whether the acquisition was successful?
In what circumstances should a goodwill asset / impairment be considered in the financial statements?
In your view, how should an asset impairment loss be measured?
What, if anything, would improve information on goodwill?
- What additional information would help your analysis?

4. Questions about the usefulness and reliability of goodwill accounting information
What does a goodwill asset / impairment loss reported in financial statements mean to you?
- What does it imply for key performance indicators (e.g., EPS) that you use?
- Does the ‘market’ react to such information?

Can you generally predict that an impairment loss will be reported in the financial statements of a specific company?

- In what circumstances can you predict it?
- Do you usually understate, or overstate, the amount to be reported?
- How do you react to an unexpected impairment loss?

Do you compare goodwill assets / impairment losses reported by companies within and across industries?

How do you cope with 'inappropriate' goodwill information?

Has the way you use goodwill asset / impairment information changed over time?

- How and why?

If any concerns raised: do these relate to the requirements of the standards or with the application of the standards?

Do you consider standard setters have the expertise to set appropriate goodwill standards?

5. Conclusion

If one thing could be improved, or changed right now, about goodwill accounting what would you like that to be?

Where do you see goodwill accounting going in the future?

Do you think other financial statement users share your views?

Would you like to add anything else?

6. Close

Take time to thank the interviewee.

Explain that the interview transcript will be sent for approval.

Ask if interviewee knows anyone who would like to participate in our study.

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Tables

TABLE 1
Interviews

Interviewee	Date	Job title	Years of experience	Qualifications	Duration	Face (F) or Telephone (T)	No of pages
Buy-side analysts							
6	22-Feb-17	Director Accounting and Valuations	24	Bachelor, Chartered Accountant	54	F	20
8a	23-Feb-17	Head of Credit Analysis	29	Bachelor	62	F	27
8b		Credit Analyst	10	Bachelor, Chartered Accountant, CFA Charterholder			
9	23-Feb-17	Head of Equity research	30	Bachelor, CFA Charterholder	67	F	28
14	03-Mar-17	Head of Credit Research	20	Bachelor, Master, CFA Charterholder	59	T	14
15	09-Mar-17	Head of Research	27	Bachelor, Chartered Accountant	63	F	23
16	10-Mar-17	Senior Investment Professional	13	Bachelor, Master, Chartered Accountant, CFA Charterholder	52	T	18
18	16-Mar-17	President	41	Bachelor, Master, Chartered Accountant, CFA Charterholder	69	F	23
Sell-side analysts							
2	20-Feb-17	Equity Analyst	10	Bachelor, Chartered Accountant	71	F	26
3a	21-Feb-17	Director - Securities Equity Research	14	Bachelor, Master, CFA Charterholder	63	F	22
3b		Associate - Securities Equity Research	8.5	Bachelor, CFA Charterholder			
4	21-Feb-17	Senior Analyst	14	Bachelor, Master, Chartered Accountant	68	F	26
7	23-Feb-17	Managing Director Research	22	Bachelor, Chartered Accountant, CFA Charterholder	40	F	16
12	24-Feb-17	Equity Analyst	10	Bachelor, Master, Chartered Accountant, CFA Charterholder	62	F	29
17	10-Mar-17	Assistant Vice President, Financial Planning and Analysis	11	Bachelor, Master, Chartered Accountant	65	T	23
19	10-Apr-17	Analyst	25	Bachelor, CFA Charterholder	61	T	20

Analyst representatives							
1a	06-Feb-17	Director of Investment Engagement	18	Bachelor, Master, CFA Charterholder	95	F	35
1b		Investor Engagement Manager	10	Bachelor, Master, Chartered Accountant			
5	21-Feb-17	Co-director	40	Bachelor, CFA Charterholder	89	F	32
13	02-Mar-17	Head of Accounting and Reporting Policy	20	Bachelor, Master, Chartered Accountant	60	F	23
Standard setter							
10	24-Feb-17	Principal	20	Bachelor, Master, CFA Charterholder	77	F	26
Credit-rating analyst							
11	24-Feb-17	Director (Accounting Specialist)	16	Bachelor, Chartered Accountant	59	F	22
Total							453

Notes:

a. To protect the anonymity of our interviewees, we do not link the quotations from transcripts with the corresponding individuals in this Table. Each interviewee was assigned a random number from 1 to 22 which accompanies each quotation in the text. This random number differs from the number in the first column of this table.

b. Interviewees 1a and 1b, 3a and 3b, 8a and 8b were interviewed in pairs.

TABLE 2
Standard-setting documents analysed

IFRS 3 Business combinations, including basis for conclusions (issued March 2004 and last revised May 2020)
IAS 36 Impairment of assets, including basis for conclusions (issued June 1998 and last revised May 2013)
IAS 38 Intangible assets, including basis for conclusions (issued September 1998 and last revised May 2014)
The conceptual framework for financial reporting, including basis for conclusions (issued March 2018)
Discussion paper: Business combinations - Disclosures, goodwill and impairment (issued March 2020)

TABLE 3
Comment letters and observations

Comment letters by analysts and their representatives to the IASB and EFRAG				
Project	Deadline for submission of comment letters	Total number of comment letters	Comment letters by analysts and their representatives	Number of pages
IASB - Request for Information and comment letters - Post-implementation Review of IFRS 3 Business Combinations	30 May 2014	94	6	52

EFRAG - Discussion Paper: Should goodwill still not be amortised? Accounting and disclosure for goodwill	20 September 2014	29	5	21
EFRAG - Discussion Paper: Goodwill impairment test: can it be improved?	31 December 2017	22	4	27
Total			15	100

Observations – IASB/CMAC meetings			
Meeting	Date	Hours of observation	Number of typed note pages
1	1 November 2018	6	5
2	6 November 2015	6	8
Total		12	13