The Ideological Homogenization of the FASB[☆]

Jivas Chakravarthy
Doctoral Candidate
Goizueta Business School
Emory University
Atlanta, GA 30322
E-mail: jchakra@emory.edu

January 11, 2014

[☆] I thank my dissertation committee – Shiva Rajgopal (Chair), Greg Waymire, Ilia Dichev, and Chris Rider (O&M) – as well as Dennis Beresford, Mengyao Cheng, Tom Clark (Political Science), Stephen Deason, Peter Demerjian, Bob Herz, Kathryn Kadous, Paul Madsen, Melanie Millar, Karthik Ramanna, Anand Swaminathan (O&M), Stephen Zeff, and workshop participants at Emory University and Georgetown University for their comments and suggestions. I thank Yuepin (Daniel) Zhou and Jenna McAuley for their excellent research assistance, and Goizueta Business School and the Sheth Research Fellowship for funding. I also thank John Pappas (FAF) and Stacey Sutay (FASB) for providing documents from the Public Record and for answering my numerous questions. All errors are my own.

The Ideological Homogenization of the FASB

January 11, 2014

ABSTRACT: When the Financial Accounting Standards Board's (FASB) conceptual framework (CF) was initially developed, contemporaneous observers believed the CF incorporated conflicting elements and that it only slightly favored the asset-and-liability (A&L) view of accounting. I propose that the completion of the primary stage of the CF in 1985 stimulated U.S. accounting standard-setting institutions along a path dependent process, driven by reinforcement around early interpretations of the framework. I empirically demonstrate that, relative to members selected in the pre-CF period, members selected in the post-CF period take voting positions that are (i) less like their constituent sponsoring organizations and (ii) more like one another; and that these shifts are related to standards favoring the A&L view. Using an analysis of comment letters I find that, relative to a control group, FASB members selected in the post-CF period express a stronger *ex ante* preference for A&L standards. This pattern of evidence makes it appear "as if," in the post-CF period, the Financial Accounting Foundation systematically selects FASB members whose views are in-line with the A&L view. Finally, I demonstrate a significant reduction in voting dissent among post-CF members but an increase in members dissenting because standards do not go *far enough* to advance the A&L view. This suggests that the FASB has become ideologically homogeneous with respect to the A&L view of accounting. I explore and briefly discuss some consequences of these changes.

JEL Classification: D72, D78, G18, M41

Keywords: Accounting standards; Conceptual framework; Financial Accounting Standards Board (FASB); Ideology; Institutional self-reinforcement; Path dependence

---

I. INTRODUCTION

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

In its initial public discussion of the CF project, the FASB noted the number one issue was whether to adopt the asset-and-liability ("A&L") or the revenue-and-expense ("R&E") view of accounting (FASB 1976).[2] I review contemporaneous responses and demonstrate that the FASB's observers believed the framework slightly favored the A&L view because it also incorporated elements of the R&E view. However, in recent years the FASB has stated there is "no doubt" that the framework endorses the A&L view (Storey and Storey 1998, 78). I utilize path dependence theory to explain this divergence.

I propose that the completion of the primary stage of the CF (i.e., the issuance of SFAC 6) stimulated U.S. accounting standard-setting institutions along a path dependent process. A path

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

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

dependent process is one in which, through institutional self-reinforcement, the consequence of small events can determine solutions that lead toward a particular path (North 1990). Specifically, I propose that as the FASB began interpreting the framework, consensus began to arise around the proper interpretations, and once a position on the 'A&L-versus-R&E' dimension was "locked-in," a path was created in that direction. I develop two research questions by considering what types of outcomes would be observed under this theory, and I develop testable hypotheses from those questions.

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

With my first research question I ask whether the FAF's process of selecting FASB members changed around the framework. Since path dependence is driven by self-reinforcement among a set of interdependent institutions, one would expect to see its effect extend beyond the FASB. If the FASB reinforced around the A&L language in the framework, then the FAF may have continued movement down that path by selecting FASB members who prefer the A&L view. I derive three hypotheses from this research question and provide empirical evidence in support of each. First, using a difference-in-differences design I demonstrate that relative to members selected before the CF, members selected

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

after the CF vote (i) less like their constituent sponsoring organizations and (ii) more like one another. These shifts are consistent with FASB member selection in the post-CF period being systematic. Second, using regression analysis I demonstrate that both of these shifts are related to standards favoring the A&L view, which is consistent with member selection in the post-CF period centering on preference for the A&L view. Through robustness tests, I rule out the possibility that these results are driven by a socialization process taking place after Board members are appointed.

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

With my second research question, I ask whether the FASB has become ideologically homogeneous. In my first hypothesis I demonstrate a significant reduction in voting dissent among members selected after the CF, and I note a post-CF increase in standards favoring the A&L view. For my final hypothesis I read and code FASB members' dissenting explanations on each SFAS. I predict an increase in dissent arising from more extreme elements within an ideology ("inside dissent"), consistent with ideological homogenization (as opposed to dissent arising from the opposite end of the ideological continuum, which I term "outside dissent"). I demonstrate that, despite the reduced level of dissent in the post-CF period, there is an increase in members dissenting because the standards do not go *far enough* to advance the A&L view. Indeed, in recent years FASB members rarely demonstrate opposition to the A&L view: across 22 fair value Statements from SFAS 125 to SFAS 160, encompassing 149 votes in total, there is only one dissent that does not explicitly call for even

greater use of fair values. While accounting methods are multidimensional (Joyce et al. 1982), it appears the FASB has become ideologically homogeneous on the 'A&L-versus-R&E' dimension.

In the current literature, numerous studies empirically test the link between lobbying on proposed accounting standards and changes subsequently made to those standards, both in the U.S. (e.g. Puro (1984), Brown and Feroz (1992), Buckmaster et al. (1994), Ramanna (2008)) and abroad (e.g. McLeay et al. (2000), Hansen (2011)). Allen and Ramanna (2013) evaluate the role of individual standard setters on the nature of standards produced by the FASB. They find that FASB members with financial services backgrounds are more likely to propose standards that increase accounting relevance. Dichev et al. (2013, 4) survey CFOs and note "there is a dissonance" between the views of standard setters and financial statement preparers. In contrast to these and other extant studies, I propose a theory of institutional change, and, in doing so, I highlight the importance of institutional factors in the standard-setting process. Further, as I am not aware of any studies that empirically link actions taken by the FAF to standard-setting outcomes, I seek to provide initial empirical evidence on the impact of the FAF on standard-setting.

I acknowledge two important caveats to my study. First, while I present evidence consistent with a change in the selection of FASB members, the FAF is a private body and I have no visibility into their selection process. Because of this, I am unable to distinguish the relative importance of the FAF, the FASB, and external political forces to influence standard-setting. Therefore, while I focus on FAF selection I do not intend to overstate the extent to which the FAF influenced the movement towards the A&L view. Indeed, I propose that the path became "locked-in" as the FASB began to interpret their framework. Ultimately, the relative power of the FAF, the FASB, and external political forces to influence standard-setting outcomes is a subject that remains open for empirical discovery.

Second, while my results are consistent with the theory I propose, I cannot rule out alternative theoretical explanations for my findings. Ramanna (2013) expands upon the findings from Allen and Ramanna (2013) and attributes the trend towards fair value accounting to the addition (starting in

1993) of FASB members with financial services backgrounds. If this is the case, one alternative explanation is that the selection of these members may have been driven by external political forces. On the other hand, it is possible that the selection of these members took place within the path dependence process that I propose. Similarly, other alternative explanations may be endogenous to the process of institutional self-reinforcement and therefore may be a product of path dependence.

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

The paper proceeds as follows. Section 2 provides some background on the CF and develops the path dependence theory. Section 3 develops this study's hypotheses, while Section 4 presents the empirical design of the hypothesis tests. Section 5 provides the results of hypothesis testing, while Section 6 provides a brief discussion and then concludes.

II. Background and Theory Development

2.1 Background of Conceptual Framework

In this section, I seek to demonstrate two aspects of the development of the CF: (i) that the shift towards the A&L view centered around the definitions of elements stated in SFAC 3, and (ii) that,

at the time, observers of the FASB viewed these definitions as a small change from the status quo (e.g. Dopuch and Sunder (1980, 5)).[4] In the following section, I propose a mechanism by which such a seemingly small change has provided a large impact on standard-setting.

In recent years, the FASB has explicitly stated that the CF endorses the A&L view, which has "conceptual primacy" (Storey and Storey (1998), Johnson (2004)). The terms revenues and expenses are defined in SFAC 3 as changes in balance sheet values.[5] In a FASB publication issued thirteen years into the post-CF period, Storey and Storey (1998, 78-79) note (emphasis added): "Although Concepts Statements 3 and 6 neither mentioned the asset-and-liability view and the revenue-and-expense view nor explained how or why the Board had settled on one of them, *the definitions themselves left no doubt about which view the Board had endorsed*."

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

Similar reactions are found in comment letters to the final Exposure Draft (ED) for SFAC 3, from which I make two observations. First, the A&L view was unpopular among the FASB's constituents at the time: the comment letter (CL) from Deloitte, Haskins and Sells cites a study which found that respondents preferred the revenue-and-expense view by over 11-to-1. Second, because the ED incorporated elements of both the A&L and R&E views, constituents did not view the document as

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

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

clearly endorsing the A&L view. Instead, constituents viewed the document as vague, and their consensus was that it slightly favored the A&L view. An excerpt of every CL to the final ED for SFAC 3 that references either the A&L view or the R&E view is included in Web Appendix 1.[6] The letter from Harvard Professor Robert Anthony – a member of the initial FASB Task Force on the CF (FASB 1973b) – best illustrates precisely how SFAC 3 was seen to blend both approaches and therefore only slightly favor the A&L view:

> My … suggestion is that the document … should adopt either the asset/liability view or the revenue/expense view, rather than attempting to incorporate aspects of both views. ….
>
> Although the definitions of the elements were framed in asset/liability terms, the Exposure Draft also discusses the ideas of accruals, deferrals, realization, and matching. It says (Paragraph 78) that the goal of these procedures is "to relate revenues, expenses, gains, and losses to periods." This is a revenue/expense approach; it has nothing to do directly with the measurement of assets and liabilities. Such a discussion leads to confusion.

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

2.2 Theory of Institutional Change

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

Early studies of path dependence present examples where product standards and technologies came to dominate the market due to chance circumstances. David (1985) posits that the "QWERTY"

[6] I have made a number of supplementary materials available online. Each reference to a supplementary appendix includes a hyperlink to the document. In addition, all web addresses are provided in Appendix 3 of this document.

keyboard (believed to be inferior to the rival Dvorak Simplified Keyboard) gained early market share by chance and benefitted from network effects to become "locked in" as an option, while Arthur (1990) presents a similar story of the competing VHS and Beta technologies within the VCR market.[7] Arthur (1994) provides four features of a technology and its social context that can create path dependent conditions: (i) large set-up or fixed costs, (ii) learning effects, (iii) coordination effects, and (iv) adaptive expectations (a self-fulfilling prophecy in which increased prevalence of an idea enhances beliefs about it). North (1990) contends that these features also apply to institutional change.

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

At the time the primary stage of the framework was completed, there were many plausible outcomes for the FASB. Because the CF endorsed elements of both the A&L and R&E views, the FASB could have maintained the status quo in which the Board explicitly endorsed neither view and dealt with each issue on a standalone basis. However, the FASB had a strong *ex ante* commitment to using the CF as a guide, a dedication likely strengthened *ex post* given the sizable costs incurred during the CF's 13-year completion (totaling "tens of millions of dollars" (Gore 1992, 49)). As such, the FASB's desire to create rational, consistent standards from its framework (FASB 1976) provided increasing returns to agreement on a single interpretation of each component of the CF, because such agreement makes subsequent decisions easier. This is similar to a common law judicial system, in

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

which precedent is followed because it is less costly to continue down the current path than it is to change to a different path (Hathaway 2001).

I propose that the completion of the primary stage of the CF stimulated accounting standard-setting institutions along a path dependent process. Specifically, I propose that the FASB's desire to create cohesive standards from its framework provided for the coordination effects that served as the primary mechanism in driving path dependence. I posit that, as the FASB began interpreting the framework during the initial years it was in force, consensus began to arise around the proper interpretations. Once the position that the framework endorsed the A&L view because of its definitional dependence on assets and liabilities was "locked-in," a path was created in that direction. In the previous section, I demonstrate that constituents viewed the FASB's choice to structure the definition of earnings in A&L terms as a minor change *ex ante*. I propose that reinforcement around early interpretations of the framework magnified its impact, creating significant consequences *ex post*.

III. HYPOTHESES

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

3.1.1 Hypotheses 1a and 1b

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

When inaugurating the CF project, the FASB noted that because it would establish certain objectives and concepts "[i]t will narrow the range of alternatives to be considered by the Board" (FASB 1976, 6). If it narrowed the range of accounting alternatives from which Board members were to choose, then it could have also have narrowed the range of acceptable candidates from which the FAF was to select Board members. As noted in Section 2.2, the process of self-reinforcement

encourages an initial choice to be sustained; in this case, the initial choice is the interpretation of the CF that became "locked-in." One method of sustaining a "locked-in" position (and continuing the path in its direction) is to systematically select Board members who will perpetuate that position.

Information about the selection of FASB members and which candidates are nominated by sponsoring organizations is not available to the public (Miller et al. (1994), FAF (2013)). As such, considerations of FAF selection require addressing the question in an indirect fashion. That is: if the FAF changed the way they select FASB members, what types of outcomes would we observe? One outcome is that the post-CF members may have preferences for different types of standards. One mechanism to identify the position taken by FASB members on various standards is whether they assent or dissent on each Statement of Financial Accounting Standards (SFAS).[8]

Because the FAF does not make available information on those nominated (but not selected) to be FASB members, a different control group is needed. I compare the vote of each FASB member to the position taken by the sponsoring organization(s) representing the member's constituent group, as indicated in comment letters on FASB Exposure Drafts.[9] Historically, these organizations have had direct and formal links to the FAF and the FASB. The CLs from these organizations are typically prepared by a committee specifically organized to interact with the FASB. In fact, the signatories of these letters for SFAS 1 through SFAS 160 include ten future Board members (i.e. prior to their joining the Board), including at least one member from each of the four major constituencies. Given the formal role of these organizations and their committees, this result is not surprising. Indeed, the signatories of comment letters from the sponsoring organizations are likely the single best source of

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

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

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

By comparing FASB members' votes to positions taken by these organizations, I can identify the extent to which the members' view on normative accounting issues differs from their respective organization(s). Because sponsoring organizations have indirect authority to select FASB members, one would expect FASB member positions to closely represent the organizations' positions. An analysis of these data can help indicate whether those selected onto the FASB have been representatively drawn from their sponsoring organization's preferred candidate pool, or whether the evidence suggests a systematic selection process. If the FAF systematically selected FASB members in the post-CF period, then post-CF members will vote less like their constituent sponsoring organization(s) and more like their peer FASB members (i.e. other post-CF members).[10]

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

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

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

A related issue is whether FASB members have incentives to vote in-line with their constituent groups (e.g., incentives driven by future labor market consequences). However, this issue does not confound my path dependence theory unless: (i) the incentives changed around the CF; and (ii) the change in incentives was based on factors unrelated to the path dependence process that I propose. I am not aware of any such changes.

3.1.2 Hypotheses 2a and 2b

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

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

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

3.1.3 Hypothesis 3

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

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

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

3.2 Hypothesis 4: RQ#2 – Ideological Homogenization

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

Dissent can take a variety of forms. I focus on two forms of dissent that are fundamentally different in nature, as outlined in Figure 2. One form of dissent arises when one strictly opposes an idea – i.e., dissent arising from the opposite end of the ideological continuum (outside dissent). However, dissent can also arise from more extreme elements within one's own ideology (inside dissent).[11] As inside dissent does not reflect a truly opposite viewpoint, it is indicative of a smaller degree of ideological heterogeneity than outside dissent.

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

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

IV. Empirical Design

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

4.1.1 Hypotheses 1a and 1b

Hypotheses 1a and 1b state that relative to pre-CF FASB members, post-CF members vote in a fashion that is less representative of each member's respective sponsoring organization(s) and more similar to their peer FASB members. Categorizing votes for FASB members is straightforward

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

because FASB members can take only one of two possible positions on each Statement, as identified by their vote: assent ($POS_i = 1$) or dissent ($POS_i = 0$). However, the process of operationalizing the position of the member's sponsoring organization(s) is more complex – in theory, their position on a Statement is a continuous variable whose value could be a full assent, a full dissent, or anywhere in between. I describe the process to obtain these positions below.

I start by identifying every comment letter submitted by every sponsoring organization to the final ED relating to all Statements from SFAS 1 through SFAS 160 (inclusive of revisions: SFAS 123R, 132R, and 141R). For tractability, I classify sponsoring organizations' CL positions into five categories: strongly oppose ($POS_m = 0$), lean oppose (0.25), neither support nor oppose (0.5), lean support (0.75), and strongly support ($POS_m = 1$). I measure the position of constituent group *j* on Statement *t* as the average position taken by that group's sponsoring organization(s) (*m*). Finally, I match the FASB vote on a Statement (POS_i) to the position of that member's constituent group on the related Exposure Draft (POS_j). Figure 1 illustrates positions taken by FASB members and sponsoring organizations and provides definitions for each CL position, while Web Appendix 2 includes the definitions as well as the coding instructions and examples of CL language within each category.[12]

For these data, my sample is limited to the extent that I identify positions of constituent groups: I am unable to "match" a FASB vote on a Statement to the position of their constituency if the associated sponsoring organization(s) does not submit a CL on the related Exposure Draft. When this occurs, I drop the observation from the "matched sample."[13] Because the Government sponsoring organizations (GFOA and NASACT) submitted CLs on only two Statements, I drop the Government

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

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

constituency from my sample. I also drop all Statements with fewer than two matched votes. My final sample of matched votes comprises 152 Statements (762 votes) out of a possible 163 Statements (1,006 votes, excluding the Government constituency).

I further illustrate this process by using SFAS 87 ("Employers' Accounting for Pensions") as an example. Seven FASB members voted on SFAS 87 – three auditors, one preparer, one user, one academic, and one government regulator. Comment letters to the final ED relating to SFAS 87 were received from the AICPA, FEI, IMA, CFA Institute, and AAA. I read each letter and use the coding rubric outlined in Web Appendix 2 to code each letter's position. Finally, six FASB votes are matched to constituent positions: the three auditors to the AICPA position, the preparer to the average of the FEI and IMA positions, the user to the CFA Institute position, and the academic to the AAA position.

To test Hypothesis 1a, I develop a variable, *Representativeness* (R_t), to measure how representative the FASB is of their sponsoring organizations on each Statement. I measure representativeness at the Statement level rather than for each member-Statement pair because sponsoring organizations do not directly select FASB members – the FAF *collectively* elects them. The R_t variable measures the extent to which the FASB's position on Statement *t* (taken by the total number of assents) aligns with the constituent groups' position (measured as the sum of the POS_j values on matched votes). It is structured such that 'perfect' representativeness – no difference between the aggregate FASB position and the aggregate position of the constituent groups – leads to a score of 1.0 (see equation 1).[14]

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

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

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

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

The format of H1a lends itself to further analysis within a difference-in-differences (D-in-D) design. This design is desirable because it controls for permanent differences between the FASB and its constituents as well as for inter-temporal changes that affect both groups. In order to execute this design, I first develop a measure of constituent dissent similar to FASB dissent: I code positions less than (equal to) 0.5 as a dissent (one-half of a dissent). I then execute a D-in-D of total FASB and constituent dissents relating to pre-CF and post-CF FASB members. Hypotheses 1a and 1b do not speak to the difference in constituent dissent across periods, but consistent with H1b I expect that FASB dissent declines across periods. Consistent with H1a, I expect the D-in-D to be positive and significant (i.e., post-CF members vote less like their constituents than pre-CF members).

4.1.2 Hypotheses 2a and 2b

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

Allen and Ramanna (2013) provide two metrics, *inc_relv* and *Manual_inc_relv*, which measure the extent to which the Exposure Draft relating to each SFAS increases perceived accounting relevance.[15] To identify Statements that increase relevance I develop an indicator variable, *Inc_Relv*, which equals unity if either of the Allen and Ramanna relevance measures is greater than zero.

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

$$R_t = \alpha + \gamma_1 * Pre_t + \gamma_2 * Inc\_Relv_t + \gamma_3 * Inc\_Relv_t * Pre_t + \gamma_4 * AvgTenure_t + \gamma_5 * LagReturn_t + \gamma_6 * ED\_Frequency_t + \varepsilon \quad (2)$$

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

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

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

Since the level of analysis is an SFAS, the output is produced by a combination of FASB members. As such, I partition the population of SFASs into those created by unique combinations of FASB members (see Web Appendix 3), and I cluster standard errors by combination. Because the underlying hypothesis is motivated by a consideration of a selection effect, I exclude combination fixed effects from my model. These fixed effects capture explanatory power related to systematic differences between each combination of FASB members, which is endogenous to my selection story (that is, precisely what the *Pre-Post* split in the model is designed to capture).[16]

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

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

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

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

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

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

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

4.1.3 Hypothesis 3

Hypothesis 3 predicts that comment letters on A&L standards that were signed by post-CF FASB members are more favorable than others. To test H3, I estimate equation 4 in an ordered logit regression with sponsoring organization fixed effects, and with standard errors clustered by sponsoring organization. Each observation represents a comment letter from one of the following five organizations: AICPA, FEI, IMA, CFA Institute, and the AAA.

$$POS_m\_Ordinal = \alpha + \delta_1 * FASB\_Pre\text{-}CF + \delta_2 * FASB\_Post\text{-}CF + \delta_3 * POS_{others}\_Ordinal + \sum\mu_1 * Org\_Fixed\_Effects_m + \sum\mu_2 * Org\_Fixed\_Effects_m * Inc\_Relv + \varepsilon \quad (4)$$

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

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

4.2 Hypothesis 4: RQ#2 – Ideological Homogenization

Hypothesis 4 compares inside dissent on those SFASs that favor the asset-and-liability view between pre-CF and post-CF FASB members. To identify inside dissent I need to focus on a single

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

At the end of each Statement, dissenting FASB members provide an explanation for their vote. To test H3, I hand-collect each of these dissenting explanations and manually code them into categories of dissenting arguments (see Web Appendix 4 for a list of argument types and a detailed explanation of the coding process). For H3, I focus on those dissenting arguments that explicitly call for greater use of fair values. The test for H3 is a comparison of the percentage of greater-use-of-fair-value dissents on fair value Statements for pre-CF FASB members and post-CF members. An increase in this percentage represents an increase in inside dissent.

Detail on the definitions, construction, and availability of all variables is included within Table 2. All data used in empirical tests are available to the public: the voting record of FASB members and the text of all dissenting arguments is available within each SFAS, documents from the FASB Public Record (e.g. comment letters for EDs and proposed SFACs) are available from the FASB by request, and the Allen and Ramanna (2013) relevance measures are included in their Table D1.

V. RESULTS

5.1 Descriptive Statistics

Table 3 summarizes FASB voting data and provides information on each member's underlying constituency and their prior standard-setting experience. Panel A (Panel B) provides voting data for all pre-CF (post-CF) members. Panel C subtotals the data by Chairperson, and Panel D subtotals the data

for each change in FASB voting requirement. The raw voting data demonstrates a decrease in dissent over time, consistent with predictions. Figure 3 presents temporal patterns of FASB dissent, constituent dissent, and Statement type for the matched sample of FASB votes. It presents initial confirmation of a post-CF increase in FASB accord coinciding with an increase in standards increasing accounting relevance, and also demonstrates a post-CF increase in constituent dissent. In Section 5.4.2 I discuss how these patterns are consistent with a path dependent process.

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

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

5.2.1 Hypotheses 1a and 1b

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

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

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

Panel E of Table 5 disaggregates the data from Panel D by constituent group. This panel highlights that post-CF dissatisfaction is most pronounced within the Preparer constituency (i.e. the FEI and IMA), whose dissent percentage in the pre-CF period (post-CF period) is 24% (43%). On the other hand, the User constituency (primarily the CFA Institute) is the only group with greater approval of the FASB in the post-CF period than the pre-CF period (post-CF dissent percentage of 15%).

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

5.2.2 Hypotheses 2a and 2b

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

often during weak macroeconomic periods than strong periods.[17] The *ED_Frequency* coefficient is negative, as expected, but is not significant (p-value=0.12). The *AvgTenure* coefficient is positive but is not significant (p-value=0.21). I explore this result further in Section 5.4.3.

Regarding the variable of interest, the results are consistent with H2a as the *Inc_Relv* coefficient is negative and statistically significant (p-value=0.05 in both columns). This result is also economically significant, as A&L standards account for 37% of the decline in *Representativeness*.[18]

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

Regarding the variable of interest, the results are consistent with H2b as the coefficient on the *Inc_Relv*Pre* term (which represents how the pre-CF result differs from the post-CF result) is positive and significant (p-value=0.03 in column 2). This is consistent with A&L standards driving significantly greater *FASB Dissent* among pre-CF members than post-CF members.[19]

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

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

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

5.2.3 Hypothesis 3

Hypothesis 3 predicts that comment letters on A&L standards that were signed by post-CF FASB members are more favorable than others. Across all Statements, out of 511 total CLs, 22 (37) CLs are from 4 (6) unique pre-CF (post-CF) members, with no single member responsible for more than 9 (14) CLs (untabulated). The results for the entire sample of CLs are included in column 1 of Table 8: *ceteris paribus*, pre-CF FASB members took positions less favorable to the FASB's Exposure Drafts (p-value=0.10) while post-CF members took more favorable positions (p-value=0.01).[20] The difference in these estimated coefficients is significant (p-value=0.00). This result is consistent with a systematic change in the selection of FASB members around the CF.

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

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

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

5.3 Hypothesis 4: RQ#2 – Ideological Homogenization

The results for Hypothesis 4, which predicts an increase in inside dissent among post-CF members on fair value Statements, are included in Panel A of Table 9. All Statements on which I identify inside dissent among post-CF members is included in Panel B, and the text of all post-CF 'inside' dissenting arguments is included in Web Appendix 5. Among pre-CF members voting on fair value standards, two (three) of the 16 dissenters argue for lesser (greater) use of fair values. Among post-CF members voting on fair value standards, three of the 18 total dissenters argue for lesser use of fair values, while 11 argue for greater use. Notwithstanding the small populations, the increase in inside dissent from the pre-CF to the post-CF period is significant at the 1% level.

In summary, post-CF FASB members dissent far less often than pre-CF members while they issue far more standards favoring the asset-and-liability view, including numerous fair value standards. Further, in more than half of the limited dissents by post-CF members on fair value standards, the dissenting member argues for an even *greater* use of fair values. At the time the conceptual framework was being debated, the constituent preference was greater than 11-to-1 against the A&L view. On the twenty-two most recent fair value standards for which Allen and Ramanna (2013) measures are available – encompassing 149 votes in total – there is only one dissent that does not explicitly call for an even greater use of fair values. The evidence indicates that, since the completion of the primary stage of the conceptual framework, the FASB has become ideologically homogeneous with respect to the asset-and-liability view of accounting.

5.4 Robustness Procedures

5.4.1 The Endogeneity of the Conceptual Framework

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

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

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

5.4.2 Initial Evidence of Path Dependence

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

Second, the FASB should grow further apart from its constituent sponsoring organizations over time in the post-CF period, with no such trend in the pre-CF period. To test this, I regress *Representativeness* on a pre-CF time trend variable, a post-CF time trend variable, and the *Pre* indicator variable. I predict that representativeness decreases over time in the post-CF period, while

there is no trend in the pre-CF period. Results (untabulated) support this pattern, as the coefficient on the pre-CF trend variable is insignificant and the coefficient on the post-CF trend variable is negative and significant. While additional work is necessary to meaningfully test for the presence of path dependence, this preliminary evidence provides initial support, as the empirical patterns documented here are precisely what one would expect to see from a path dependent process.

5.4.3 Selection or Socialization?

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

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

Second, I re-run equations 2 and 3 separately for the *Pre* and *Post* periods, as the *AvgTenure* variable can provide evidence on whether post-CF members change positions over their tenure in order to conform to the post-CF norm.[21] I interpret negative coefficients in the *Post* regressions as consistent with a socialization effect (i.e., more exposure to the FASB in the post-CF period decreases *Representativeness* and reduces Board dissent) and positive coefficients as consistent with a "cold

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

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

5.5 Additional Robustness Procedures

It is possible that the FASB anticipated the contents of the framework and began to implement it before completion of the primary stage; as such, I consider alternate "cut-off" points prior to SFAC 6. When SFAC 5 was issued – four years after SFAC 3 and with five (of seven) members from SFAC 3 remaining – multiple observers viewed the concepts statement as favoring the R&E view.[22] Given the ongoing internal debate over the direction of the framework, and because SFAC 5 addressed important topics (recognition and measurement), it seems unlikely that the FASB began implementing the framework before SFAC 5. While SFAC 5 is a plausible alternate cut-off point, it was issued only one year before SFAC 6 (in December 1984), and in that one year the FASB did not issue any SFASs and had only one new member (Arthur Wyatt, who only voted on 11 SFASs during his tenure). As such, it is unlikely that using SFAC 5 as a cut-off would materially affect my empirical results.

It is also possible that my results are influenced by coding errors in which a coded position does not reflect the true position of a comment letter. There are two types of coding errors – systematic and idiosyncratic. Systematic coding errors should not influence my findings, as the errors would "cancel out" in my time series and cross-sectional analyses. Idiosyncratic errors are the result of coding accidents. I test the sensitivity of my results to idiosyncratic coding error by performing jackknife procedures for tests of H1a, H2a, and H3, in which the hypothesis tests are estimated by

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

successively eliminating one observation. I demonstrate that for those hypotheses, in no instance does the elimination of an observation affect the significance of any hypothesis test (untabulated). As such, it is unlikely that my results are influenced by idiosyncratic coding error.

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

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

TimeLag is calculated as the log of the number of months between release of the ED and the SFAS, which I use as a proxy for the degree of change made to the ED after its release. *Pre* is an indicator variable equal to unity when the majority of FASB members voting on the SFAS are pre-CF members. *Constituent Dissent* is the percent of constituent dissents on a Statement (dissents ÷ matched votes). I interpret a negative ζ_3 coefficient as evidence of a shift in which the FASB made more substantive changes to an ED in response to poor constituent support in the post-CF period than in the pre-CF period. Because the estimated ζ_3 coefficient is positive and statistically insignificant (ζ_3=0.07, p-value=0.89; untabulated), it is unlikely that my results are confounded by such a shift.

VI. Discussion and Conclusion

6.1 Discussion

The possibility that the FAF systematically selects FASB members who are not representative of their sponsoring organization(s) raises the question: why do the organizations allow this to happen?

Also, the possibility that the FASB is ideologically homogeneous raises its own question: what are the consequences of such a condition? I briefly address each question.

6.1.1 What factors allow this situation to persist?

There are at least three economic factors that make it difficult for the FASB's constituents to alter the course of standard-setting. First, institutional self-reinforcement strengthens the institutions' stability, causing significant increases in the cost of switching and making it difficult to move off the established path (Pierson 2000a). Incremental changes to the framework of the FAF (in 1987, 2002, and 2008) have served to erode, and ultimately eliminate, the formal authority of the sponsoring organizations to select FAF Trustees. As a result of the final change in 2008, existing Trustees unilaterally elect new Trustees (see Appendix 2 for details).[23] These changes strengthen U.S. standard-setting institutions by allowing them to continue along a path not supported by those who once maintained formal authority to influence the course of action.[24]

Another possible manifestation of institutional self-reinforcement is the FASB's evolved use of the framework, which is consistent with what organizational scholars term a "buffer" (Thompson 1967, 20). Buffering creates the appearance of rational decision-making and mitigates constituents' uncertainty about the quality and legitimacy of the standard-setting process (Elmore 2000). In doing so, a "logic of confidence" is created between standard-setters and their constituents, insulating them from excessive interference. The FASB's predecessor (the Accounting Principles Board, or APB) never completed a framework, despite such a document being an initial priority; perhaps as a result, they were highly criticized by the government and the financial press during their tenure (Zeff 1971). The FASB's institutional strength may stem in part because their evolved use of the CF has created a

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

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

"logic of confidence." Importantly, this outcome could not be obtained without the FASB coalescing around a single explanation for the guidance provided within their framework.

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

6.1.2 What are the consequences to ideological homogenization?

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

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

prior equations. The results (untabulated) are consistent with the FASB promulgating standards on key matters more quickly after the CF than before.

One potential cost of ideological homogeneity is that it places the Board at risk of falling victim to "groupthink," which can lead to poor decision-making. Janis (1982) notes that the primary antecedent condition for groupthink is the degree of cohesiveness of the group, while ideological homogeneity is a secondary condition.[25] By all accounts the members and staff of the FASB are intelligent, hard-working, and highly motivated while working under demanding conditions. Indeed, because working for the FASB is demanding and attracts criticism, those who work for the organization are more likely to feel committed to the organizational mission, which may act to strengthen the cohesiveness of the group. Because of the significance of such a condition, research evaluating the FASB and its processes with respect to the Janis (1982) antecedent conditions and groupthink symptoms would be useful.

6.2 Conclusion

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

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

References

AAA. 1971. The Role of the American Accounting Association in the Development of Accounting Principles. *The Accounting Review* 46 (3):609-616.

Agrawal, S. P. 1987. On the conceptual framework of accounting. *Journal of Accounting Literature* 6:165-178.

AICPA. 1972. *Establishing Financial Accounting Standards: Report of the Study on Establishment of Accounting Principles*. New York, NY: American Institute of Certified Public Accountants, Inc.

Allen, A., and K. Ramanna. 2013. Towards an understanding of the role of standard setters in standard setting. *Journal of Accounting and Economics* 55 (1):66-90.

Ansolabehere, S., J. M. Snyder, and M. Tripathi. 2002. Are PAC Contributions and Lobbying Linked? New Evidence from the 1995 Lobby Disclosure Act. *Business and Politics* 4 (2):131-155.

Arthur, W. B. 1990. Positive Feedbacks in the Economy. *Scientific American* 262:92-99.

Arthur, W. B. 1994. Self-Reinforcing Mechanisms in Economics. In *Increasing Returns and Path Dependence in the Economy*, edited by W. B. Arthur. Ann Arbor, MI: University of Michigan Press, 111-132.

Arthur, W. B., Y. M. Ermoliev, and Y. M. Kaniovski. 1987. Path-dependent processes and the emergence of macro-structure. *European Journal of Operational Research* 30 (3):294-303.

Barth, M. E. 2006. Including Estimates of the Future in Today's Financial Statements. *Accounting Horizons* 20 (3):271-285.

Becker, G. S. 1983. A Theory of Competition Among Pressure Groups for Political Influence. *The Quarterly Journal of Economics* 98 (3):371-400.

Brant, R. 1990. Assessing Proportionality in the Proportional Odds Model for Ordinal Logistic Regression. *Biometrics* 46 (4):1171-1178.

Brown, L. D., and E. H. Feroz. 1992. Does the FASB Listen to Corporations? *Journal of Business Finance & Accounting* 19 (5):715-731.

Buckmaster, D., E. Saniga, and S. Tadesse. 1994. Measuring the Lobbying Influence Using the Financial Accounting Standards Board Public Record. *Journal of Economic & Social Measurement* 20 (4):331-356.

Chatov, R. 1975. *Corporate Financial Reporting: Public or Private Control?* New York, NY: The Free Press.

David, P. A. 1985. Clio and the Economics of QWERTY. *The American Economic Review* 75 (2):332-337.

Demerjian, P. R. 2011. Accounting standards and debt covenants: Has the "balance sheet approach" led to a decline in the use of balance sheet covenants? *Journal of Accounting and Economics* 52 (2–3):178-202.

Dichev, I., J. Graham, C. R. Harvey, and S. Rajgopal. 2013. Earnings Quality: Evidence from the Field. *Unpublished Working Paper*.

Dichev, I. D. 2008. On the Balance Sheet-Based Model of Financial Reporting. *Accounting Horizons* 22 (4):453-470.

Dopuch, N., and S. Sunder. 1980. FASB's Statements on Objectives and Elements of Financial Accounting: A Review. *The Accounting Review* 55 (1):1-21.

Elmore, R. F. 2000. *Building a new structure for school leadership*. Washington, DC: Albert Shanker Institute.

FAF. 2008. The Financial Accounting Foundation Board of Trustees Approves Changes to Oversight, Structure and Operations of FAF, FASB and GASB http://www.fasb.org/faf/nr022608.pdf.

———. 2009. Restated Certificate of Incorporation of the Financial Accounting Foundation. Dover, DE: State of Delaware, Secretary of State.

———. 2013. By-Laws of the Financial Accounting Foundation: http://www.accountingfoundation.org/cs/BlobServer?blobkey=id&blobwhere=1175827441914&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs.

FASB. 1973a. Seven Projects Underway as Board Tackles First Technical Agenda. *The FASB Report* June 18, 1973.

———. 1973b. Task Force Appointed to Study Conceptual Framework for Accounting and Reporting; Will Meet With Members of Trueblood Study Group. *The FASB Report* December 27, 1973.

———. 1976. *Discussion Memorandum: Conceptual Framework for Financial Accounting and Reporting: Elements of Financial Statements and Their Measurement*. Stamford, CT: FASB.

———. 1978. *Statement of Financial Accounting Concepts No. 1: Objectives of Financial Reporting by Business Enterprises*. Norwalk, CT: FASB.

———. 1980a. *Statement of Financial Accounting Concepts No. 2: Qualitative Characteristics of Accounting Information*. Norwalk, CT: FASB.

———. 1980b. *Statement of Financial Accounting Concepts No. 3: Elements of Financial Statements of Business Enterprises*. Norwalk, CT: FASB.

———. 1984. *Statement of Financial Accounting Concepts No. 5: Recognition and Measurement in Financial Statements of Business Enterprises*. Norwalk, CT: FASB.

———. 1985. *Statement of Financial Accounting Concepts No. 6: Elements of Financial Statements—a replacement of FASB Concepts Statement No. 3 (incorporating an amendment of FASB Concepts Statement No. 2)*. Norwalk, CT: FASB.
———. 2000. *Statement of Financial Accounting Concepts No. 7: Using Cash Flow Information and Present Value in Accounting Measurements*. Norwalk, CT: FASB.
———. 2010. *Statement of Financial Accounting Concepts No. 8: Chapter 1, The Objective of General Purpose Financial Reporting, and Chapter 3, Qualitative Characteristics of Useful Financial Information*. Norwalk, CT: FASB.
Gellein, O. S. 1986. Financial Reporting: The State of Standard Setting. *Advances in Accounting* 3:3-23.
Georgiou, G. 2004. Corporate Lobbying on Accounting Standards: Methods, Timing and Perceived Effectiveness. *Abacus* 40 (2):219-237.
Gerboth, D. L. 1987. The Conceptual Framework: Not Definitions, But Professional Values. *Accounting Horizons* 1 (3):1-8.
Gore, P. 1992. *The FASB Conceptual Framework Project 1973-1985: An analysis*. Manchester, UK: Manchester University Press.
Hansen, T. B. 2011. Lobbying of the IASB: An Empirical Investigation. *Journal of International Accounting Research* 10 (2):57-75.
Hathaway, O. A. 2001. Path Dependence in the Law: The Course and Pattern of Legal Change in a Common Law System. *The Iowa Law Review* 86 (2):101-165.
Hepp, G. W., and T. W. McRae. 1982. Accounting standards overload: relief is needed. *Journal of Accountancy* 153 (5):52-62.
Jamal, K., and S. Sunder. 2007. Monopoly or Competition: Standard Setting in the Private and Public Sector. *University of Alberta School of Business Research Paper No. 2013-1005*.
Janis, I. L. 1982. *Groupthink: Psychological Studies of Policy Decisions and Fiascoes*. Second Edition, Revised ed. Boston, MA: Houghton Mifflin.
Johnson, L. T. 2004. Understanding the Conceptual Framework. *The FASB Report* December 28, 2004.
Johnson, L. T. 2005. Relevance and Reliability. *The FASB Report* February 28, 2005.
Joyce, E. J., R. Libby, and S. Sunder. 1982. Using the FASB's Qualitative Characteristics in Accounting Policy Choices. *Journal of Accounting Research* 20 (2):654-675.
Kadous, K., L. Koonce, and J. M. Thayer. 2012. Do Financial Statement Users Judge Relevance Based on Properties of Reliability? *The Accounting Review* 87 (4):1335-1356.
Kingston, C., and G. Caballero. 2009. Comparing theories of institutional change. *Journal of Institutional Economics* 5 (2):151-180.
Kirk, D. J. 1989. Reflections on a "Reconceptualization of Accounting": A Commentary on Parts I-IV of Homer Kripke's Paper, "Reflections on the FASB's Conceptual Framework for Accounting and on Auditing". *Journal of Accounting, Auditing & Finance* 4 (1):83-105.
Kothari, S. P., K. Ramanna, and D. J. Skinner. 2010. Implications for GAAP from an analysis of positive research in accounting. *Journal of Accounting and Economics* 50 (2–3):246-286.
Liebowitz, S. J., and S. E. Margolis. 1990. The Fable of the Keys. *Journal of Law and Economics* 33 (1):1-25.
Madsen, P. E. 2013. Evaluating Accounting Standards: A Comment on Ramanna's 'The International Politics of IFRS Harmonization'. In *Accounting, Economics and Law*, 77-91.
McLeay, S., D. Ordelheide, and S. Young. 2000. Constituent lobbying and its impact on the development of financial reporting regulations: evidence from Germany. *Accounting, Organizations and Society* 25 (1):79-98.
Miller, P. B. W. 1990. The Conceptual Framework as Reformation and Counterreformation. *Accounting Horizons* 4 (2):23-32.
Miller, P. B. W., R. J. Redding, and P. R. Bahnson. 1994. *The FASB: The People, The Process, and The Politics*. Third Edition ed. Burr Ridge, IL: Irwin.
North, D. C. 1990. *Institutions, institutional change and economic performance*. New York, NY: Cambridge University Press.
Olson, M. 1965. *The logic of collective action: public goods and the theory of groups*. Cambridge, MA: Harvard University Press.
Page, S. E. 2006. Path dependence. *Quarterly Journal of Political Science* 1 (1):87-115.
Pierson, P. 2000a. Increasing Returns, Path Dependence, and the Study of Politics. *The American Political Science Review* 94 (2):251-267.
Pierson, P. 2000b. The Limits of Design: Explaining Institutional Origins and Change. *Governance* 13 (4):475-499.

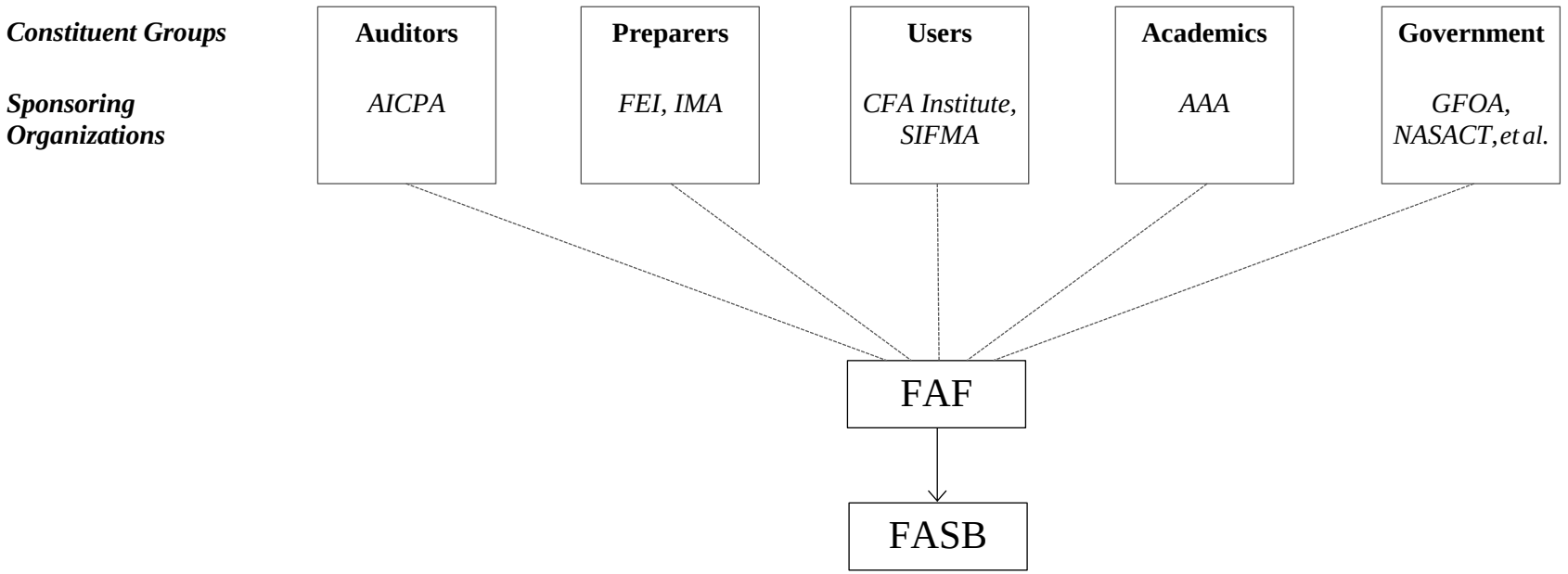
Puro, M. 1984. Audit Firm Lobbying before the Financial Accounting Standards Board: An Empirical Study. *Journal of Accounting Research* 22 (2):624-646.
Ramanna, K. 2008. The implications of unverifiable fair-value accounting: Evidence from the political economy of goodwill accounting. *Journal of Accounting and Economics* 45 (2-3):253-281.
Ramanna, K. 2013. Why "Fair Value" is the Rule: How a Controversial Accounting Approach Gained Support. *Harvard Business Review* 91 (3):99-101.
Segal, J. A., and H. J. Spaeth. 2002. *The Supreme Court and the attitudinal model revisited*. Cambridge, United Kingdom: Cambridge University Press.
Solomons, D. 1986. The FASB'S Conceptual Framework: An Evaluation. *Journal of Accountancy* 161 (6):114-124.
Storey, R. K., and S. Storey. 1998. *The Framework of Financial Accounting Concepts and Standards*. Norwalk, CT: Financial Accounting Standards Board.
Thompson, J. D. 1967. *Organizations in Action: Social Science Bases of Administrative Theory*. New York, NY: McGraw-Hill.
Turner, M. E., and A. R. Pratkanis. 1998. Twenty-Five Years of Groupthink Theory and Research: Lessons from the Evaluation of a Theory. *Organizational Behavior and Human Decision Processes* 73 (2–3):105-115.
Zeff, S. A. 1971. *Forging Accounting Principles in Five Countries: A History and Analysis of Trends*. Champaign, IL: Stipes Publishing Company.
Zeff, S. A. 1999. The Evolution of the Conceptual Framework for Business Enterprises in the United States. *Accounting Historians Journal* 26 (2):89-131.

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

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

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

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



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

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

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

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

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

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

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

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

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

[†] Current organizational names; includes predecessor organizations and prior organizational names
[*] Includes the AICPA President, who served on the FAF Board of Trustees *ex officio*

APPENDIX 3. Web addresses (URLs) for supplementary Web Appendices

Web Appendix	Title	URL
1	Excerpts from comment letters to SFAC 3 that reference the asset-and-liability view or the revenue-and-expense view	https://drive.google.com/file/d/0B_T01AXWhjXqM09Tc2dYaUJ1blU/edit?usp=sharing
2	Detail on categorization of comment letters	https://drive.google.com/file/d/0B_T01AXWhjXqa3FMd1ltRzJyNkE/edit?usp=sharing
3	Partition of population into combinations of FASB members	https://drive.google.com/file/d/0B_T01AXWhjXqWDc5RHE4ZG9EZTQ/edit?usp=sharing
4	Detail on categorization of FASB members' dissenting arguments	https://drive.google.com/file/d/0B_T01AXWhjXqall0Z1M5RG1KUDQ/edit?usp=sharing
5	Text of all dissenting arguments identified as post-CF "inside dissent"	https://drive.google.com/file/d/0B_T01AXWhjXqd25ra1I0Q3I0ZTA/edit?usp=sharing

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

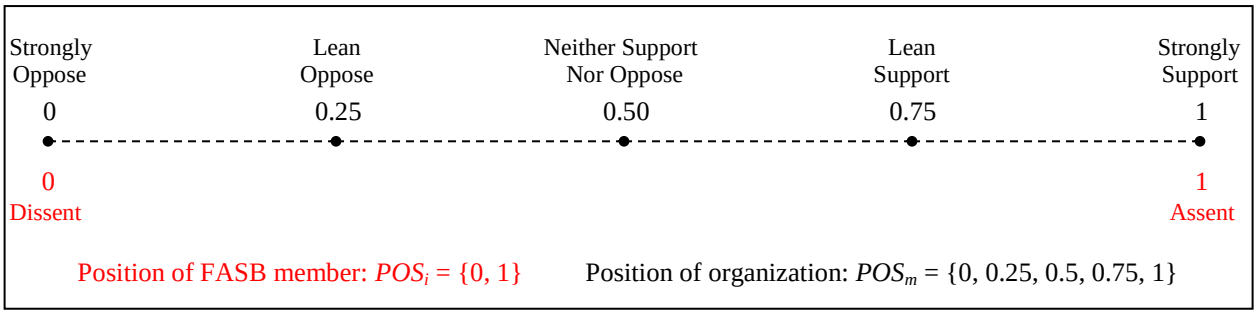


Figure 1 depicts the position of individual FASB member *i* (POS_i) and sponsoring organization *m* (POS_m) on a Statement. I determine positions of FASB members by their vote on each Statement (assent or dissent). I operationalize the position of each constituent group as the average of the position taken by the group's sponsoring organizations in comment letters to the final Exposure Draft related to each Statement. In theory, the position of the sponsoring organization is a continuous variable between the range zero and one. I classify these positions into five categories (based upon whether the letter opposes or supports the related ED) per the descriptions provided above the scale. I read each comment letter and use the definitions for each comment letter position (below) and the detailed instructions provided in Web Appendix 2 to place each letter into one of the five categories. The values provided above the scale indicate how each category was converted into a POS_m value.

Definitions for each comment letter position (POS_m)

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

FIGURE 2. Illustration of inside dissent and outside dissent

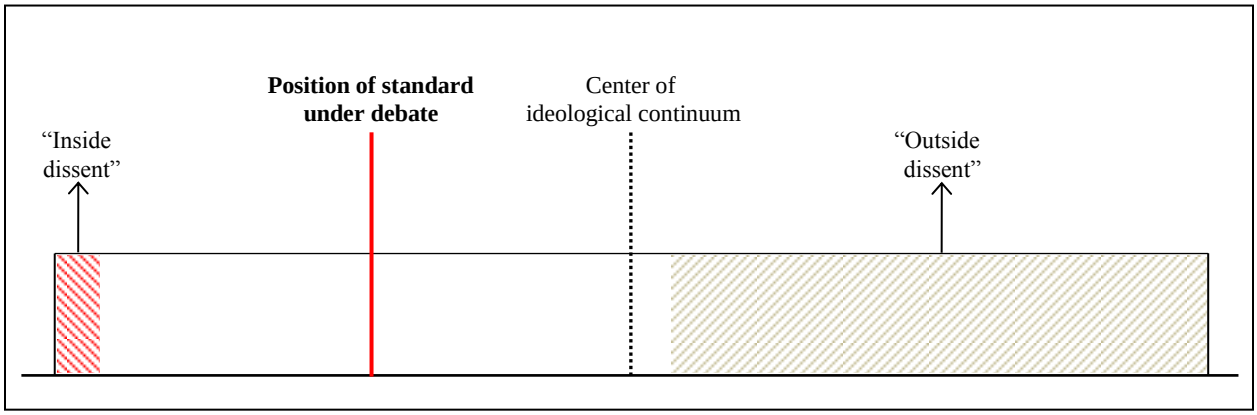


Figure 2 illustrates the two distinct types of dissent discussed in Section 3.2. The horizontal line represents an ideological continuum, and a simplifying assumption is made that standard-setters are uniformly distributed across the continuum. In this hypothetical situation, an accounting standard up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

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

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

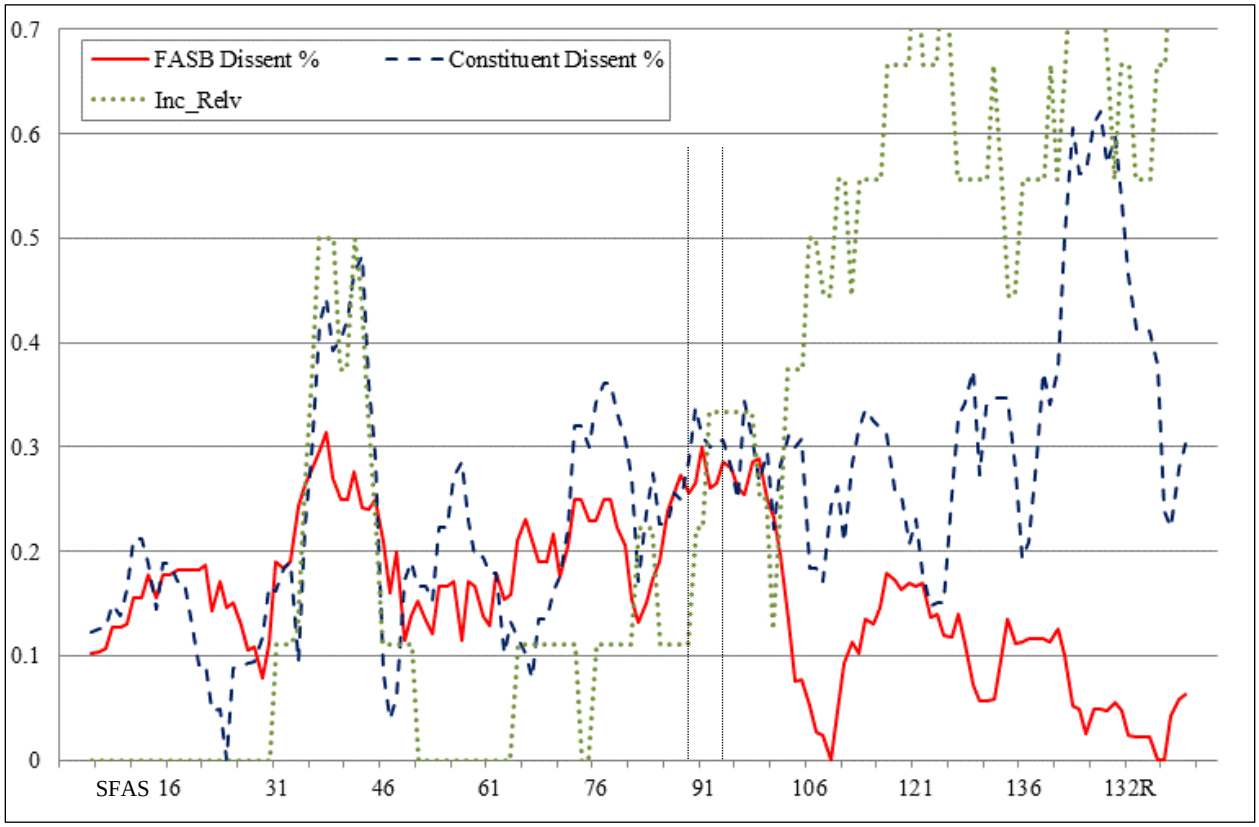


Figure 3 depicts time-series variation in FASB dissent, constituent dissent, and Statements increasing perceived accounting relevance. This Figure supplements the data presented in Panel D of Table 5 (which is used to support Hypotheses 1a and 1b) by providing the data in a more granular fashion and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

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

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

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

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

TABLE 1. FASB Statements of Financial Accounting Concepts

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

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

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

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

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

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

Variable Name (Short Name/Symbol)	Variable Type	Definition, Construction, and Availability
Constituent position ($POS_{j,t}$)	Discrete	I measure the position of constituent group *j* on Statement *t* as the average position taken by the group's sponsoring organizations in comment letters to the final Exposure Draft related to the Statement. I first identify CLs submitted by sponsoring organizations to the final ED relating to each Statement. I then match FASB votes on each Statement to the position taken by that member's constituency within comment letters to the related Exposure Draft. For tractability, positions taken by sponsoring organizations in CLs are classified into five categories: strongly oppose (POS_m = 0), lean oppose (0.25), neither support nor oppose (0.5), lean support (0.75), and strongly support (POS_m = 1). The sponsoring organizations for each constituent group are: AICPA (Auditors), FEI and IMA (Preparers), CFA Institute and SIFMA (Users), and the AAA (Academics). Because the Government sponsoring organizations (GFOA and NASACT) submitted CLs on only two Statements, I also drop the Government constituency from my sample. These data are hand-coded and are collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions: SFAS 123R, 132R, and 141R). I identify a total of 423 constituent positions across those 163 Statements. Refer to Web Appendix 2 for a description of the coding process used to categorize constituent positions.
FASB member position ($POS_{i,t}$)	Binary	I measure the position of FASB member *i* on Statement *t* by their vote: assent ($POS_{i,t}$ = 1) or dissent ($POS_{i,t}$ = 0). Voting data are hand-collected for the full population of 212 Statements issued by the FASB from its inception in 1973 through August 2012: all 171 SFASs (SFAS 1 through 168, inclusive of revisions) as well as the 41 ASUs from 2009-01 through 2012-02 that required an affirmative vote of FASB members.
Number of matched FASB votes ($n_{i,t}$)	Count	The variable $n_{i,t}$ measures the total number of matched FASB votes *i* on Statement *t*. After identifying the position of constituent group *j* on Statement *t*, I "match" each FASB vote ($POS_{i,t}$) to the position of their constituency ($POS_{j,t}$). I am unable to match a FASB vote to their constituency if the related sponsoring organization(s) does not submit a comment letter on a Statement (as noted above, I collect a total of 423 constituent positions across the 163 SFASs). For the population of 163 SFASs for which $POS_{j,t}$ values were collected, I match a total of 762 votes out of a possible 1,006 FASB votes (this total excludes votes by FASB members from the Government constituency).
Representativeness (R_t)	Continuous	This variable measures the extent to which the FASB's position on Statement *t* aligns with the position of their constituent sponsoring organizations. In order to delineate the representativeness of members selected in the pre-CF period from members selected in the post-CF period, for SFAS 1 through SFAS 93 (SFAS 94 through SFAS 160), *Representativeness* is determined using only the votes by pre-CF members (post-CF members). For each Statement I require a minimum of 2 FASB votes matched to constituent positions. I identify 152 R_t values out of the 163 Statements from SFAS 1 through SFAS 160 (inclusive of revisions). The metric is structured such that 'perfect' representativeness (no difference between the aggregate FASB position and the aggregate position of the constituents) leads to a score of 1.0, as follows: $$R_t = 1 - \frac{\left| \sum_{j} POS_{j,t} - \sum_{i} POS_{i,t} \right|}{n_{i,t}}$$
Constituent dissent (Constituent Dissent)	Discrete	This variable transforms the constituent position variable ($POS_{j,t}$) into a measure of dissent in order to allow a comparison to dissents made by FASB members. Constituent positions less than 0.5 are coded a dissent, while positions equal to 0.5 are coded as one-half of a dissent.

FASB dissent percentage (FASB Dissent$_t$)	Continuous	This variable is measured as the dissent percentage (total dissents ÷ total votes) among pre-CF FASB members or post-CF FASB members. As I require a minimum of 4 votes by either pre-CF or post-CF members, this variable represents the dissent percentage among pre-CF members for SFAS 1 through SFAS 93 and the dissent among post-CF members for SFAS 94 through SFAS 160 (inclusive of revisions).
Increase relevance (Inc_Relv$_t$)	Binary	This indicator variable identifies Statements that increase perceived accounting relevance, which I use as a proxy for Statements which favor the asset-and-liability view of accounting. It equals unity if either of the two Allen and Ramanna (2013) relevance metrics (*inc_relv* and *Manual_inc_relv*) is greater than zero. It is populated for 160 out of the 163 Statements from SFASs 1 through 160 (inclusive of revisions) – all except SFAS 38, SFAS 103, and SFAS 141R.
Average tenure (AvgTenure$_t$)	Continuous	This variable identifies the average tenure of FASB members, and is measured as the log of the average number of Statements the members have voted on as of (and inclusive of) Statement *t*. It is populated for all 212 Statements.
One-year lagged market returns (LagReturn$_t$)	Continuous	This variable provides the lagged one-year market return as of the date of the final ED to each Statement. It is calculated from the daily Value-Weighted Return (including dividends) (Variable Name: VWRETD) from the CRSP Stock Market Indexes file, and is populated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).
Number of recent FASB standards (ED_Frequency$_t$)	Continuous	This variable is measured as the log of the number of Exposure Drafts (that ultimately became Statements of Financial Accounting Standards) that were issued by the FASB in the two years prior to the date of the final ED to each Statement. It is populated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).
Statements issued in the pre-CF period (Pre$_t$)	Binary	This indicator variable identifies Statements issued in the pre-CF period, and is equal to unity for SFAS 1 through SFAS 93. It is populated for all 212 Statements. When *Pre* is included as a stand-alone independent variable in a regression, the reference category in the regression is *Post*, an excluded indicator variable equal to unity for all Statements after SFAS 93.
Statements issued under a supermajority vote (Supermajority$_t$)	Indicator	This indicator variable is equal to unity for the following Statements which were issued under a required supermajority vote: SFAS 1 through SFAS 15 and SFAS 107 through SFAS 144 (see Panel D of Table 3 for details), and is populated for all 212 Statements.
Sponsoring organization position (POS_m_Ordinal)	Discrete	This variable represents the position of sponsoring organization *m* on each comment letter. Because it is used as a dependent variable, I monotonically transform the original comment letter positions which took values {0.0, 0.25, 0.5, 0.75, 1.0} such that the variable POS_m*_Ordinal* takes integer values {1, 2, 3, 4, 5}. These data are hand-coded and are collected from comment letters to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 528 sponsoring organization positions across those 163 Statements.
Pre-CF FASB member (FASB_Pre-CF)	Binary	This is an indicator variable equal to unity when one of the signatories on a sponsoring organization's comment letter was subsequently selected to the FASB in the pre-CF period (i.e. members in Panel A of Table 3). These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 23 such CLs.
Post-CF FASB member (FASB_Post-CF)	Binary	This is an indicator variable equal to unity when one of the signatories on a sponsoring organization's comment letter was subsequently selected to the FASB in the post-CF period (i.e. members in Panel B of Table 3). These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I identify a total of 53 such CLs.
Position of other sponsoring organizations (POS_{others}_Ordinal)	Continuous	This is the average of the ordinal CL positions taken by the other sponsoring organizations on the related Statement. These data are hand-collected from CLs to the final ED for SFAS 1 through SFAS 160 (inclusive of revisions). I drop all comment letters where the related Statement has fewer than two matched sponsoring organization positions; as such, this will be the average position of one to four other organizations. Because of this requirement I lose 8 observations (out of 528 sponsoring organization positions) where only one sponsoring organization submitted a comment letter on a Statement.
Length of time between the final ED and the Statement (TimeLag$_t$)	Continuous	This variable measures the length of time between the release of the final Exposure Draft related to Statement *t* and the Statement itself, and is calculated as the log of the number of months between release of the ED and the Statement. The number of months is a continuous variable calculated as [(Date of Statement – Date of ED)/30]. This variable is calculated for each of the 163 Statements from SFASs 1 through 160 (inclusive of revisions).

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

Panel A: Members selected in the pre-CF period

Member	Group	Group2	Experience	Tenure	Votes	Assents	Dissents	Abstain
Armstrong	Auditor	–	CAP, APB	1973 – 1977	20	20	0	0
Queenan	Auditor	–	CAP, APB	1973 – 1975	3	3	0	0
Litke	Gov't	–	–	1973 – 1977	20	16	4	0
Mays	Preparer	–	–	1973 – 1977	20	17	3	0
Kirk	Auditor	–	*	1973 – 1986	91	77	14	0
Sprouse	Academic	–	–	1973 – 1985	88	74	14	0
Schuetze	Auditor	–	–	1973 – 1975	12	11	1	0
Gellein	Auditor	–	APB, FASB	1975 – 1978	21	18	3	0
Walters	Auditor	–	–	1977 – 1983	64	49	15	0
March	Auditor	–	FASB	1978 – 1984	62	49	13	0
Morgan	Preparer	–	FASAC	1978 – 1982	51	39	12	0
Mosso	Gov't	–	–	1978 – 1987	77	65	12	0
Block	User	–	FASB	1979 – 1985	63	56	7	0
Brown	Preparer	Auditor	FASAC	1983 – 1993	46	41	5	0
Lauver	Auditor	–	FASB, FASAC	1984 – 1990	28	18	10	0
Wyatt	Auditor	Academic	FASAC	1985 – 1987	11	8	3	0

Panel B: Members selected in the post-CF period

Member	Group	Group2	Experience	Tenure	Votes	Assents	Dissents	Abstain
Northrop	Preparer	–	FASB	1986 – 1990	18	15	3	0
Swieringa	Academic	–	–	1986 – 1996	37	30	7	0
Beresford	Auditor	–	EITF, IASC, FASAC	1987 – 1997	40	37	3	0
Leisenring	Auditor	–	EITF, FASB	1987 – 2000	46	39	7	0
Sampson	Gov't	–	–	1988 – 1993	20	19	1	0
Anania	Auditor	–	–	1991 – 1999	31	30	1	0
Northcutt Jr.	Preparer	–	FASAC	1992 – 1996	16	14	2	0
Cope	User	–	–	1994 – 2000	23	21	2	0
Foster	Preparer	Auditor	FASAC	1994 – 2003	33	25	8	0
Larson	Preparer	Auditor	FASAC, EITF	1996 – 2001	18	18	0	0
Mueller	Academic	–	–	1996 – 2001	18	18	0	0
Jenkins	Auditor	–	FASAC, EITF	1998 – 2002	15	15	0	0
Trott	Auditor	–	EITF, FASAC	2000 – 2007	24	24	0	0
Crooch	Auditor	Academic	IASC, FASB	2000 – 2008	26	26	0	1
Schieneman	User	Auditor	–	2001 – 2004	12	12	0	0
Wulff	Preparer	Auditor	–	2001 – 2003	7	7	0	0
Schipper	Academic	–	FASAC	2002 – 2006	14	12	2	0
Herz	Auditor	–	FASB, EITF	2002 – 2010	50	50	0	0
Batavick	Preparer	Auditor	–	2003 – 2008	16	16	0	0
Seidman	Preparer	Auditor	FASB	2003 –	62	60	2	0
Young	User	–	–	2005 – 2008	11	10	1	0
Linsmeier	Academic	–	–	2006 –	54	48	6	0
Smith	Auditor	–	FASB, EITF	2007 –	49	45	4	2
Siegel	User	Auditor	FASB	2009 –	43	42	1	3
Golden	Auditor	–	FASB, EITF	2010 –	16	16	0	0
Buck	Preparer	Auditor	FASB	2011 –	9	9	0	3
Schroeder	User	Auditor	EITF	2011 –	9	7	2	3

Panel C: Voting subtotals by Chairperson

Chair	Group	Group2	Experience	Tenure as Chair	Votes	Assents	Dissents	Abstain
Armstrong	Auditor	–	CAP, APB	1973 – 1977	138	118	20	0
Kirk	Auditor	–	FASB*	1978 – 1986	496	409	87	0
Beresford	Auditor	–	EITF, IASC, FASAC	1987 – 1997	277	241	36	0
Jenkins	Auditor	–	FASAC, EITF	1998 – 2002	100	94	6	1
Herz	Auditor	–	FASB, EITF	2002 – 2010	285	276	9	5
Seidman	Preparer	Auditor	FASB	2010 –	98	88	10	6

Panel D: Voting subtotals by history of FASB voting requirements

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

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

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

Information on each member's constituent "Group" is determined by reviewing official FASB biographies for each member. Biographical information is obtained from: (1) the current FASB website (www.fasb.org) as of September 2012, (2) archived versions of the FASB website (obtained from the Internet Archive at www.archive.org), and (3) from various issues of the FASB *Status Report* (those issues providing an announcement of the new FASB member; they were obtained from the FAF via request). In each case the type is based on the member's occupation immediately preceding their Board membership. Where a member's background (prior to joining the FASB) covered multiple constituent groups, the next most recent occupational category is included in the "Group2" column. Auditors are classified as an "Auditor," college professors who hold a PhD are classified as an "Academic," industry executives (non-financial services) are classified as a "Preparer," government regulators are classified as "Gov't," and all others are classified as a financial statement "User" (e.g. financial analyst, banking).

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

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

TABLE 4. Descriptive statistics for Statement-level variables

Panel A. Summary statistics

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

Panel B. Pearson and Spearman correlations

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

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

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

Additional detail regarding each variable is included within Table 2.

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

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

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

				Represent_Post – Represent_Pre		
	Represent_Pre	*Represent_Post*	H_a	Difference	T-statistic	P-value
Mean	0.809	0.677	–	–0.132***	–3.97	0.000
Standard Deviation	0.175	0.222				
Observations	87	65				

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

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

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

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

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

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

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

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

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

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

Panel D provides data on constituent dissents, which is used to jointly test Hypotheses 1a and 1b. Panel E provides detail on comment letter submission frequencies and constituent dissent by constituent group in the pre-CF and post-CF period. The data on submission frequencies facilitate an understanding of the impact of "missing" comment letters, while the data on constituent dissent provide additional detail on the results in Panel D.

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

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

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

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

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

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level
P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

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

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

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

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

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

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

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

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level
P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

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

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

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

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

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

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

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

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level
P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

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

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

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

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

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

Additional detail regarding each variable is included within Table 2.

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level
P-values under the z-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)

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

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

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

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

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

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

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

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

Dissenting explanations are hand-collected from each Statement. Each dissenting explanation is hand-coded and divided into various dissenting arguments (see Web Appendix 4 for a detailed explanation of the coding process). In Panel A, "Total # inside dissents" represents the number of dissenting arguments explicitly calling for greater use of fair values, which for analytical purposes is limited to one argument per dissenter. For brevity I omit data on all other dissenting arguments, as they are not needed to test Hypothesis 4. The second percentage provided is the total number of inside dissenting arguments as a percentage of total dissents. The third (and final) percentage provided is the total number of dissents excluding those with inside dissenting arguments as a percentage of total votes.

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

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

Significance levels: (*) 10% level, (**) 5% level, (***) 1% level
P-values under the t-statistic for directional predictions (non-directional predictions) are one-tailed (two-tailed)