# Problematising the decision-usefulness of fair values: empirical evidence from UK † financial analysts

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In its recently revised conceptual framework, the IASB re-affirms decision-usefulness as the objective of financial reporting, disregarding claims about its lack of coherence. In this paper, we examine how this notion of decision-usefulness works in practice by focusing on the case of fair value measurement. In particular, we explore how decision-usefulness is perceived and experienced by financial analysts when using fair values in their work. We use the frame of 'problematisation', which involves challenging assumptions in existing literature, to formulate our research question and to interpret our findings. Empirical evidence, drawn from interviews with UK financial analysts and comment letters analysts wrote to the IASB, puts into question three key assumptions inherent in the revised conceptual framework. First, fair values are not considered to be unquestionably useful to decision-making; second, this usefulness is found to be contingent on the context of the decision being made; and third, the qualitative characteristics required to achieve decision-usefulness are challenged for their lack of meaning. Analysts' testimonies also challenge taken-for-granted assumptions implicit in academic studies. Assumptions that the decision-usefulness of fair values can be established prior to practice are re-evaluated. We also reflect on the premise that the decision-usefulness of fair values can be challenged on its underlying market-based economic rationales. Overall, our findings contribute to thinking problematically about decision-usefulness which appears to be contingent rather than given by some Q1 predetermined ideals as envisaged in accounting conceptual frameworks.

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## 1. Introduction

The objective of financial reporting, as stated in the conceptual framework by the International Accounting Standards Board (IASB 2018), is to provide information useful to users for their capital allocation decisions. Thisobjectivehasnot been challenged bythe IASB anditsconstituents during the most recent revision of the conceptual framework. This is surprising for at least two reasons. First, it is surprising given passionate debates about other concepts that are supposed to be deduced from this objective. Despite debates about the extent to which stewardship should be considered as a separate objective of financial reporting (Murphy et al. 2013, Pelger 2016), about whether reliability should be replaced by representational faithfulness (Erb and Pelger 2015), and about whether prudence should be a desirable characteristic of accounting information (Barker 2015, Mora and Walker 2015), decision-usefulness was taken for granted by all participants. Second, the absence of any challenge to decision-usefulness by the IASB and its constituents is surprising given concerns in the academic literature that it lacks clarity and coherence as a rationale for setting accounting standards (Williams and Ravenscroft 2015), and concerns in EU public policy debates that it could be insufficient for serving the broader public interest (Maystadt 2013).

At the same time, we know very little about how financial analysts, the main beneficiaries of decision-usefulness, perceive and experience this when they use financial reports in their work. A growing body of literature is concerned with the relationships between users and standard setters. This literature informs us that, on the part of standard setters, even though they employ a 'user needs approach' when promulgating accounting principles and practices, this is done without drawing on any empirical evidence (McCartney 2004). Instead, a deductive reasoning approach is followed with which users and their needs are 'made up' (Stenka and Jaworska 2019, Young 2006) in order to fit pre-conceived ideas of standard setters about what counts as decision-useful accounting information. Despite recent attempts to engage more with financial statement users (Bhimani et al. 2019), they remain a symbolic rhetorical category that lends legitimacy to principles established normatively, rather than a pragmatic concern (Durocher and Fortin 2010, Pelger and Spieß 2017, Young 2003). On the part of users, existing research tells us they are uncritical of inefficiencies in International Financial Reporting Standards (IFRSs) (Durocher and Gendron 2011) and that they generally refrain from taking an active part in standard-setting processes based on perceptions of the legitimacy of the process (Durocher et al. 2007, 2019). Georgiou (2018) explores the disconnect between the two groups in terms of differing evaluations of fair values and finds that they 'talk past each other' as users are interested in accounting numbers that help them assess how the business has performed rather than in accounting numbers that provide market valuations of individual assets and liabilities. Despite these insights, our knowledge of how financial statement users perceive and experience decision-usefulness in their work is very limited.

These issues motivate us to subject decision-usefulness to empirical investigation. The choice has been made here to explore decision-usefulness by focusing on the case of fair value measurement for three reasons. First, measurement in the conceptual framework has been a controversial topic and, for the first time, fair values are discussed in the conceptual framework (IASB 2018). Existing research suggests that the fair value idealism of some standard setters has acted as a catalyst to recent revisions to the conceptual framework (see, for example, Barth 2007, Erb and Pelger 2015, O'Brien 2009, Pelger 2016, Power 2010, Whittington 2008, Zhang and Andrew 2014). Second, fair values have a prominent role in standard-setting debates more broadly. Interestingly, research shows how standard setters have added fair values to IFRSs in a piecemeal way over time and have justified this on the normative ideal of decision-usefulness, but without offering a sound theoretical, or empirical, basis for such justification (Detzen 2016, Georgiou and Jack 2011, Power 2010, Whittington 2015). Third, the decision-usefulness of fair values is a topical issue given ongoing discussions post the 2008 global financial crisis in which fair values were heavily criticised (Haswell and Evans 2018).

Against this background, we set out to empirically test the decision-usefulness of fair values. We use the framing of problematisation to construct our research question and to guide the collection and analysis of our empirical evidence. Problematisation is about thinking differently instead of what is already known about a matter (Foucault 1985). In this way, problematisation provides an analytical space to inquire how a particular issue is understood (Bacchi 2015) and thus facilitates 'the development of more interesting and influential theories' Alvesson and Sandberg (2011, p. 267). We do this by articulating and challenging assumptions underlying the IASB conceptual framework and academic studies about the decision-usefulness of fair values. This leads us to our key research question of: how is decision-usefulness perceived and experienced by analysts when using fair values in their work? We undertake a field study based on information collected from 17 sell-side London-based analysts who analyse banking, insurance, and other financial companies. Semi-structured interviews were employed in order to elicit information about respondents' considerations in using fair values in their roles, with a particular emphasis on the decision-usefulness of fair values. We complement this field work by analysing 39 letters written by analysts to the IASB in relation to the revision of the conceptual framework and the post implementation review of IFRS 13 Fair Value Measurement.

Our aspirations are close to those of Malsch and Gendron (2009, p. 747): to 'question the taken-for-grantedness and functionalist aura surrounding' the relationship between financial practitioners and decision-usefulness. Empirical studies on the decision-usefulness of financial accounting information in general have been concerned with what characteristics make financial reporting (more) useful such as whether investors require information with different properties for stewardship decisions versus valuation decisions (Cascino et al. 2016, Hjelström et al. 2014).

Empirical studies on the decision-usefulness of fair values (Gassen and Schwedler 2010, Georgiou 2018) do not provide us with direct insights into how users' perspectives relate to how this is familiarised in existing literature. We set out to empirically test decision-usefulness with a different attitude: to trouble the 'familiar', the 'given', and the 'silent' of the decision-usefulness underlying existing literature.

We seek to make three contributions to the accounting standard-setting literature. Our first contribution is to expose the contingencies of the key objective of financial reporting and rationale for setting standards as laid out in the conceptual framework. By challenging assumptions about the decision-usefulness of fair values we show how this is a ‘problem’ in financial analysis practices. Fair values are not unquestionably useful to decision-making, their usefulness depends on the context of the decision being made, and the meaningfulness of the attributes needed to achieve decision-usefulness is seriously questioned. Our second contribution is to show how the decision-usefulness of fair values is emergent and situated and thus cannot be theorised prior to the practice of its usage. We challenge assumptions underlying existing studies that the decision-usefulness of fair values can be deduced either from the current conceptual framework (Barth 2014) or from an alternative conceptual framework (Sutton et al. 2015), or that it can be informed empirically by studying financial statement users (Dean and Clarke 2003, Jonas and Young 1998). Our third contribution is to demonstrate how the decision-usefulness is not only problematised on its underlying unrealistic economic rationales (Williams and Ravenscroft 2015) and its insistence to represent the market perspective rather than the entity perspective (Barker and Schulte 2017, Hayoun 2019). Rather, the decision-usefulness of fair values is found problematic even when analysts are not thinking or behaving contrary to assumptions of conventional economic theory. This enables us to uncover the benefits of amplifying and intensifying existing problematisations of decision-usefulness.

The remainder of the paper is organised as follows. The next section outlines the framing of problematisation that guided our research design and interpretation of findings. Section three outlines the ways we collected and analysed information. Section four presents and interprets the interview and comment letter findings and section five provides further analysis and discussion. Section six concludes the paper.

## 2. Problematisation as a frame for exploring decision-usefulness

In formulating our research question and in interpreting our empirical evidence, we mobilise the framing of ‘problematisation’ as proposed in contemporary social studies of science. As a frame of critical and reflective analysis, problematisation is about opening up and scrutinising assumptions underlying established knowledge about a topic. Proposals for problematisation, such as those by Alvesson and Sandberg (2011), Sandberg and Alvesson (2011), and Flyvbjerg (2012), draw largely on Foucault (1985) for whom problematisation involves thinking away from existing arguments and re-evaluating them, thus leading to new ways of thinking about the subject matter.

Under this approach, the task of analysis is primarily to call into question taken-for-granted assumptions, identities and settlements, and to expose the contingencies of apparently stable definitions of problems. To ‘think problematically rather than question and answer dialectically’ (Foucault 1977, p. 186) involves a type of enquiry where the point of analysis is not to look for the one correct response to an issue but to examine how it is ‘questioned, analysed, classified and regulated’ (Deacon 2000, p. 127). We follow critical social science studies that draw on Foucault’s notion of problematisation in this way: more as a frame of analysis (Howarth 2013). Our approach shares common views with a recent discussion in the accounting literature to problematise the uncritical acceptance of accounting numbers and ideas such as profit and profitability (Lowe et al. 2020a, 2020b).

A different, albeit related, use of problematisation as an object of analysis relates to the concern with how and why certain things become problematic at particular points in time (Callon 1984). This aspect of problematisation has been used in governmentality and actor-network-theory studies of accounting (see, for example, Mennicken and Miller 2012, Miller 1991, Robson 1994, Robson and Young 2009). Relevant to our study here is Latour's (2004) notion of turning matters of fact into matters of concern. As he explains, 'a matter of concern is what happens to a matter of fact when you add to it its whole scenography, much like you would do by shifting your attention from the stage to the whole machinery of a theatre' (Latour 2008, p. 39). This approach invites us to worry about the indisputable nature of the decision-usefulness, which plays a starring role on the stage, and to explore how it is enacted in practice.

Flyvbjerg (2012, p. 116) argues that problematisation of tension points is a key feature of phronetic research as it enables us to 'study things that matter in ways that matter'. At the centre of a problematisation-driven approach is the notion of critique in terms of 'questioning situations' with the aim of disturbing how we continue thinking about things that are considered obvious and uncontroversial. In this way, problematisation serves as a frame for 'dramatising' (Stengers 2019) or 'politicising' (Bacchi 2012) the taken for granted by putting into question the presumed fixity of what is problematised and thus making it possible to think otherwise.

We employ this framing by studying how decision-usefulness, which is taken for granted as an unproblematic purpose of financial reporting and as a rationale for setting accounting standards, is understood and scrutinised in practice by its intended audience. We acknowledge that the term 'problematisation' unavoidably signals a critical intent and thus the danger of it being related with a polemic epistemological stance where 'problems' are seen as negative entities (Bacchi 2015).

We have consciously avoided such a conception throughout our research and used problematisation as a heuristic frame for unpacking and rethinking decision-usefulness.

For Alvesson and Sandberg (2011, p. 247) problematisation is a way for 'identifying and challenging assumptions underlying existing literature' which can be used to generate novel research questions that are likely to lead to more interesting and influential theories. The authors suggest that it is productive to think in terms of different types of assumptions for a subject matter: inhouse, root metaphors, paradigm, ideology, and field assumptions. The following principles for problematisation are suggested, with an emphasis that the process needs to be more iterative than linear: (1) identifying a domain of literature, (2) identifying and articulating assumptions underlying this domain, (3) evaluating them, (4) developing an alternative assumption ground, (5) considering it in relation to its audience, and (6) evaluating the alternative assumption ground.

We follow these principles and set out by viewing decision-usefulness as a distinct paradigm, as a distinct 'body of knowledge' (Pelger 2016), within the broader field of accounting standardsetting. Focusing on fair value measurements, we view decision-usefulness as having underlying assumptions – implicit foundations on which the authors' thinking rests – open for

[1] Decision-usefulness has served as the stated rationale for setting accounting standards since the 1970s. For a history of the emergence and development of decision-usefulness see Murphy et al. (2013), Williams and Ravenscroft (2015), Young (2006), and Zeff (2013).

problematisation. For our assumption-challenging investigation, we identify two domains of literature: (1) how decision-usefulness and measurement are discussed in the IASB conceptual framework, and (2) how the decision-usefulness of fair values is explored in academic studies. For the second domain, we explore assumptions implicit in studies on the decision-usefulness of fair values to users of financial statements and in studies of how the decision-usefulness of fair values is deduced in conceptual frameworks. We also explore assumptions in studies that have already problematised decision-usefulness. For this we follow Barnett (2015, p. 17) who proposes that to realise the full potential of Foucault's notion of problematisation we need to think away from 'a simple division between settlements and disruption, or between naturalization and exposure' to 'problematizations in terms of the intensification of already difficult situations'. We therefore also identify gaps and silences in studies that have already challenged decision-usefulness with the aim of exposing the benefits of further, or more nuanced, questioning.

We do not aim to cover all studies in the relevant literature. We take Alvesson and Sandberg's (2011), advice that problematisation should involve a more narrow literature coverage and indepth readings of key texts. In the discussion below, we articulate what major assumptions underlie the two domains of literature and why these assumptions are worthy to be challenged.

## 2.1. Decision-usefulness and measurement in the IASB conceptual framework

Decision-usefulness is presented in accounting conceptual frameworks in terms of a presupposition that financial reports are prepared for the purpose of providing information useful in economic decision-making. This is re-affirmed in the evised conceptual framework published by the IASB in 2018.[1] Although decision-usefulness is not supported by evidence, theory development, or detailed argumentation, it 'forms the foundation of the conceptual framework' (IASB 2018, para. 1.1) from which other aspects of the conceptual framework, such as qualitative characteristics and measurement concepts, 'flow logically'.

The specific objective of financial reporting is stated as follows (para. 1.2):

> The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

It is therefore made explicit that the target beneficiaries of financial reporting are capital market participants who read financial reports to make resource allocation decisions, and not capital markets in general. The IASB explains that financial analysts are advisers to these capital market participants and encompassed by the objective above (paras. BC1.12-BC1.13). The decisions made by these users are specified as being only of economic nature and as focused on assessing future financial performance. These decisions involve 'buying, selling or holding equity and debt instruments, providing or settling loans and other forms of credit; or exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources' (para. 1.2) for which users need information to enable them to assess the 'amount, timing and uncertainty of (the prospects for) future net cash inflows to the entity' (para. 1.3).

Additionally, it is stated that, in order to assess an entity's prospects for future net cash inflows, users need information about 'the economic resources of the entity, claims against the entity, and changes in those resources and claims' and about 'how efficiently and effectively the entity's management and governing board have discharged their responsibilities to use the entity's economic resources' (para. 1.4). Thus, to achieve decision-usefulness, as stated here in abstract terms, financial reports must also provide information about the management's stewardship of resources. The IASB explains that decision-usefulness is still the absolute objective of financial reporting as the provision of information for assessing stewardship is neither part of the objective of financial reporting, nor an additional and equally prominent objective (para. BC1.35). Assessing management stewardship is presented as contributing to the key objective, which is informing resource allocation decisions (para. BC1.36). This is not clearly articulated despite representing a significant change from the previous conceptual framework (IASC 1989, para. 14) where assessing management's stewardship was given a separate role to that of decision-usefulness (Pelger 2016, 2020, Zeff 2013).

The IASB discusses some limitations of decision-usefulness including that financial reports do not and cannot provide all the information users need, and hence users 'need to consider pertinent information from other sources' (para. 1.6). The IASB is thus making the assumption that this information can be used unproblematically alongside other types of information. This implies that users can understand and unpack this information satisfactorily to use it together with other information. The IASB also discusses how the concepts established by the conceptual framework are the goal towards which the board and preparers of accounts strive, and that 'as with most goals, the Conceptual Framework's vision of ideal financial reporting is unlikely to be achieved in full, at least not in the short term' (para. 1.11). It is therefore acknowledged that the text lays out idealistic concepts that, on the surface, can appear unquestionable. What would 'ideal financial reporting' look like is left unexplained, rendering statements and assumptions made amenable to criticism.

Whether accounting numbers contain information that is useful in making decisions is not inherent in them but is instead defined in terms of qualities of information. The framework identifies relevance (encompassing predictive value and confirmatory value) and faithful representation (encompassing completeness, neutrality, and freedom from error) as fundamental qualitative characteristics, and comparability, verifiability, timeliness, and understandability as characteristics that enhance the usefulness of financial information. These qualities are depicted in Figure 1. The framework explains that useful financial reporting information is information that maximises these qualitative characteristics. The qualitative characteristics are defined without reference to how financial statement users could be using information to make decisions. For example, for the characteristic of relevance, 'information may be capable of making a difference in a decision even if some users choose not to take advantage of it or are already aware of it from other sources' (para. 2.6).

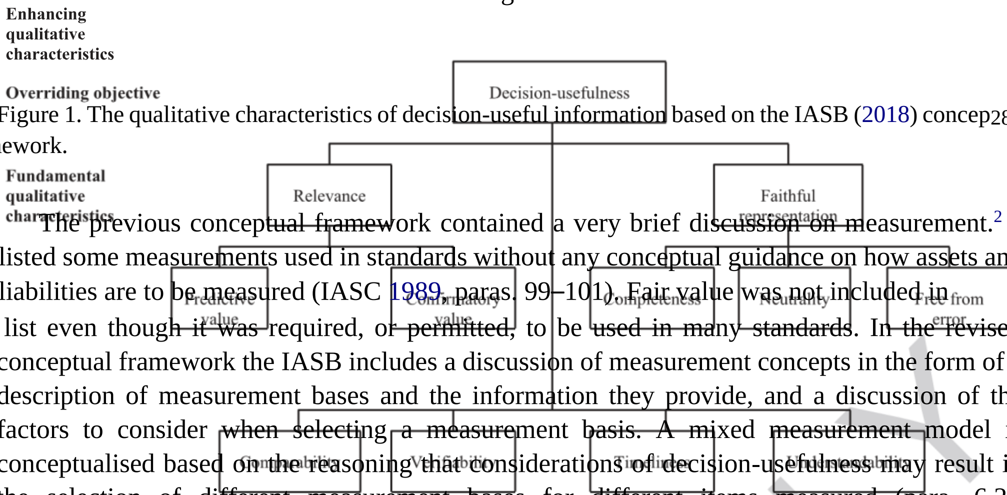


Figure 1. The qualitative characteristics of decision-useful information based on the IASB (2018) conceptual framework.

The previous conceptual framework contained a very brief discussion on measurement.[2] It listed some measurements used in standards without any conceptual guidance on how assets and liabilities are to be measured (IASC 1989, paras. 99–101). Fair value was not included in this list even though it was required, or permitted, to be used in many standards. In the revised conceptual framework the IASB includes a discussion of measurement concepts in the form of a description of measurement bases and the information they provide, and a discussion of the factors to consider when selecting a measurement basis. A mixed measurement model is conceptualised based on the reasoning that considerations of decision-usefulness may result in the selection of different measurement bases for different items measured (para. 6.2). Measurement bases are categorised as historical cost bases, which use information derived from the transaction or event that created the assets, liabilities, income and expenses that are being measured and current value bases, which use information that is updated to reflect conditions at the measurement date. Current value bases include fair value, value in use for assets and fulfilment value for liabilities, and current cost. An important distinction between fair value and value in use is that the former reflects assumptions by market participants and the latter reflects entity-specific assumptions. The relevance of the information provided by each measurement basis is presented as largely unproblematic. For fair value, information is presumed to have predictive and confirmatory value because fair values reflect expectations about cash flows and provide feedback about previous estimates (para. 6.32). Also, income and expenses measured at fair value can help in an assessment of management stewardship (para. 6.33). Again, such statements about the usefulness of fair values are made without any reference to empirical evidence or to a theoretical model.

The factors to be considered when selecting which measurement basis to use relate to how each fulfils the key qualitative characteristics of decision-usefulness. The relevance of information provided by a measurement basis is affected by the characteristics of the asset or liability and how that asset or liability contributes to future cash flows (para. 6.49). For example, fair values produce relevant information for assets and liabilities that produce cash flows directly, while information on fair value changes may not be relevant when an asset is held solely for use and produces cash flows indirectly or is held solely for collecting contractual cash flows.[3] Concerns are raised with measurement uncertainty when it comes to the selection of a measurement basis to achieve faithful representation. The example provided to illustrate this uncertainty is very telling about how market values are assumed to be unbiased: there is no measurement uncertainty

[2] Even though the use of market values in practice has a longer history, concepts of fair valuation gained prominence in standard-setting debates from the 1990s onwards. For a historical overview, see Georgiou and Jack (2011) and Whittington (2015).

[3] The IASB states that the way in which an asset or liability contributes to future cash flows depends, in part, on the nature of business activities conducted by the entity. Against concerns that this may lead to subjectivity, the Board assumes that in many cases the nature of an entity's activities is a matter of fact, not an opinion or management intent (para. BC6.40).

associated with the fair value of an asset which is determined directly by observing prices in an active market (para. 6.62). The IASB then discusses how the enhancing qualitative characteristics have implications for the selection of a measurement basis. With no justification provided, the characteristic of timeliness is believed to have no specific implications for measurement (para. 6.63). When it comes to comparability, the IASB says that when identical assets or liabilities are measured at fair value, rather than at value in use, comparability can be enhanced because fair value is determined from the perspective of market participants and is independent of when the asset was acquired or when the liability was incurred (para. 6.72). Fair value is also presumed to be more suitable than value in use for measuring individual assets used in combination with other assets (para. 6.75). Also, if the fair value can be observed in an active market, the process of fair value measurement is assumed to be low-cost, easy to understand, and the fair value is verifiable (para. 6.73). However, these benefits are considered not to hold when fair values are estimated using valuation models as the estimation process can be costly and complex and it may be difficult to verify the inputs and the validity of the process itself (para. 6.74). These conceptual arguments are presented as facts even though no discussion is provided as to how they relate to the information needs of actual users of financial reports.

The above reasoning constitutes the ‘decision-usefulness theory of accounting’ (Staubus 1999) which provides a particular worldview that has come to frame the development of standards. This reasoning is underpinned by a number of assumptions that constitute the image of decision-usefulness as an established ideal. It is fruitful to investigate these assumptions given analyses that decision-usefulness rests on rhetorical assertions and not on empirical evidence (Lee 2015). One assumption is that decision-usefulness represents an ‘information root metaphor’ (Ravenscroft and Williams 2009) where the products of standards are expected to provide information useful to economic decision-makers. The connection between accounting data and decisions is assumed to be a stable process: one that can demonstrate whether decision-usefulness inheres in some accounting datum and not another (Williams and Ravenscroft 2015). This information root metaphor is manifested in the ‘fair value idea’ (Barker and Schulte 2017, p. 56) where the usefulness of fair values to making decisions is taken as largely unproblematic. The users envisioned in the conceptual framework are assumed to make decisions in the present based on their own predictions of the future. This is an important aspect of the decision-usefulness of fair values because current value measurements of assets and liabilities are considered to be more relevant to future cash flow-oriented decisions than older measurements are (Staubus 1999).[4] The revised conceptual framework re-emphasises the market/entity contrast as established in IAS 36 and IFRS 13 and thus the fundamental assumption that fair value is an exclusively market-based measurement which is distinct from entity-specific measurement

[4] This emphasis on predicting future cash flows is premised on knowledge claims of financial economics (Baudot 2018, Morley 2016, Pelger 2016, Power 2010, Pucci and Skærbæk 2020) and reliance on market mechanisms of rationality and economic efficiency to interpret accounting events (Williams 1987).

(Hayoun 2019, Lennard 2018). By promoting market-based fair values as less uncertain, or as more objective, than values provided by management, the framework also helps to marginalise entity-specific value in use, creating thus the impression that fair value is more relevant than value in use. Additionally, by focusing only on measuring assets and liabilities, with income being only a consequence of this measurement, the framework presumptively makes current value the appropriate measurement method to meet the demands of decision-usefulness (Barker and Penman 2020, Barker and Teixeira 2018, Dichev 2017). This information root metaphor assumption can be questioned on the grounds that we do not know enough about how financial statement users see the usefulness of this information when assessing a company.

Another assumption is how the usefulness of fair value accounting information to decisions is considered absolute in that the context of analysis is not considered to play a major role. In fact, the conceptual framework creates the impression that decision-usefulness forms an unexamined background ideal against which accounting concepts and practices may be promulgated. Although the use of the business model in selecting which measurement basis to use can be seen as taking into account business context in producing fair values, the context of the interpretation of such values is overlooked. This assumption appears problematic and is open to questioning: perhaps decision-usefulness can be a more fluid, rather than a fixed, trait of fair value information. A third assumption we identify here is how the conceptual framework creates the impression that the qualitative characteristics support the decision-usefulness of fair values. This motivates problematisation aiming at understanding how these qualitative characteristics are perceived and experienced in practice by users of financial statements.

## 2.2. The decision-usefulness of fair values in academic studies

A large body of research examines decision-usefulness from the perspective of the influence of financial information on investors' valuation of the reporting entity as reflected in its stock price. A central conclusion of this work is that fair values provide decision-useful information to users of financial reports, but are characterised by reliability issues such as measurement error and source authority (see, for example, Hodder et al. 2013, Landsman 2007, Penman 2007). The IASB makes reference to how this body of literature provides supportive evidence for the decision-usefulness of financial reporting data (IASB 2018, para. BC2.50) while pointing out that these studies empirically measure relevance but not faithful representation. A key assumption made here by both researchers and the IASB is that the markets can represent people's views. In other words, stock price reactions are interpreted as evidence of usefulness of fair value accounting information to users of financial statements. This is despite, as noted above, decision-usefulness explicitly directed at living and breathing human beings: 'investors, lenders and other creditors'. This interpretation is also made despite suggestions that the information environment may be affected by various institutional forces other than financial reporting

(Ball 2016, ICAEW 2015). Thus, the assumption that capital market movements are a sound representation for financial statement users' views and reactions needs to be opened up to further enquiry.

In relation to the question of whether fair values can be established deductively as decisionuseful we have identified two assumptions from existing literature. The first assumption, implicit in Barth (2014), is that the decision-usefulness of fair values can be deduced from the current conceptual framework. Guided by this logic, Barth (2014) assesses the conceptual merits of alternative measurement bases and concludes that fair value measurement is more consistent with the objective of financial reporting, the qualitative characteristics, and the definitions of assets and liabilities than either modified or unmodified historical cost. Barth (2014) argues that fair value possesses the most qualitative characteristics to the greatest extent and reflects key aspects of the definitions of assets and liabilities. The second assumption, implicit in Sutton et al. (2015), is that the usefulness of fair values can be deduced from a conceptual framework different to the existing one. This would be a more theoretically coherent conceptual framework in which the primary purpose of financial reporting would be to support market stability and efficiency through the provision of an account of the company's position and performance that reflects economic reality. This purpose would support the conceptual superiority of fair values over historical costs. The authors also suggest that enhanced disclosures for levels 2 and 3 fair values can ameliorate user concerns about the faithful representation of such numbers. A similiar assumption underlies a pertinent discussion by Smieliauskas et al. (2018) who suggest replacing 'decisionusefulness' with 'truthfulness' to avoid unethical reporting which results mostly from the reporting of uncertain fair values.

Another key assumption we seek to problematise, implicit in normative work on conceptual frameworks, is that empirical evidence can provide more theoretical coherence in conceptual frameworks and thus lead to improvements in financial reporting (see, for example, Jonas and Young 1998). This argument is implicit in analyses that challenge the deductive reasoning approach employed by standard setters whereby the users and the characteristics of information necessary to these users are presented as a given. A central concern is the failure of standard setters to prescribe adequately who the decision-makers are and what decisions they make. According to Dean and Clarke (2003), this deductive approach is the main cause of the 'futility' of the conceptual framework exercise, which could be avoided if more attention is given to the function of accounting. Similarly, Walker (2003, p. 342) argues that only if the conceptual framework has a 'clear view' about the function of accounting and the behaviour of users of financial reports can it provide 'a coherent and consistent set of statements which can establish the basis for the development of improved practices'. Christensen (2010) adds that, from an information economics approach, the current conceptual framework, especially the set of qualitative characteristics, does not reflect the diversity of informational needs of the users of accounting information and that there is no inherent superiority in any one basis of measurement. Macve (2010, 2014) has also consistently raised concerns with the current approach standard setters employ in developing universally applicable measurement concepts. The assumption made by these studies is that evidence from practice will lead to the development of better conceptual underpinnings for accounting standards (see also recent calls for 'evidence-based policymaking' (Leuz 2018)).

However, this assumption is open to problematisation given that, in the absence of knowledge of how financial statements users perceive decision-usefulness, we do not know how this could inform more coherent conceptual frameworks.

We have also identified a number of assumptions that merit investigation implicit in interpretive-critical studies that have challenged decision-usefulness in general terms. One such assumption is that decision-usefulness can be challenged on its economic rationales. This underlies how Williams and Ravenscroft (2015) demonstrate the incoherence of decision-usefulness by analysing research on individual human motivation and decision-making and on the nature of the markets. This research shows, for example, that users of financial information are not always economically rational or predictable and thus do not respond to accounting information in ways consistent with idealised economic models, and that the non-linear dynamic nature of the market makes future cash flows unforecastable. Therefore, Williams and Ravenscroft (2015) argue that decision-usefulness lacks the essential properties that allow standard setters to rely on it to justify accounting policy and suggest that accountability might serve as a better rationale for setting accounting standards. Another assumption underlying existing literature is that decision-usefulness can be challenged on the grounds that the IASB lacks knowledge about actual users and their needs (Stenka and Jaworska 2019, Young 2006) and that users are not actively involved in standard-setting processes (Durocher et al. 2007, Durocher and Gendron 2011). How empirical evidence directly from financial statement users can help problematise decision-usefulness is still relatively unexplored. Whether users' rationality relates to their reaction to decision-usefulness, and whether soliciting and incorporating users' views can improve decision-usefulness, are matters open to empirical investigation.

In relation to the decision-usefulness of fair values in particular, existing studies share the premise that this can be challenged on its logic that fair values represent the market perspective which cannot be universally applied to all items measured in financial reports. Hitz (2007), for example, examines theoretically the decision-usefulness of fair values from a measurement perspective and from an information perspective and finds that the conceptual case is less strong when fair values are not observed in liquid markets and are therefore particularly problematic for non-financial positions. Hitz (2007) also finds that fair value income is conceptually inferior to transaction-based income when judged on predictive ability but superior from an informational perspective. Barker and Schulte (2017) share the same premise when they investigate how nonfinancial assets are measured and find that fair valuations of such assets are not performed in

Table 1. Articulating and problematising assumptions on the decision-usefulness of fair values.

| Assumptions found in IFRS and academic literature | |
|---|---|
| Decision-usefulness as an information root metaphor – the usefulness of fair values to making decisions is mostly unproblematic (IASB 2018) | The decision-usefulness of fair values is absolute and independent of the context of financial analysis (IASB 2018) |

| | |
|---|---|
| Qualitative characteristics support the decisionusefulness of fair values (IASB 2018) | The decision-usefulness of fair values is contingent on:<br>• The use of fair values in combination with other information – difficult to interpret alongside other information<br>• The verification of fair values by the auditors<br>• The analyst's own judgement and expertise in context<br>• Factors specific to the entity being analysed and the general market environment |
| Capital markets are a good proxy for financial statement users' views and reactions (Hodder et al. 2013) | |
| Problematisation from empirical evidence and analysis | |
| Fair values are not unquestionably useful to decisionmaking because:<br>• Fair values are not the main focus of analysis<br>• Fair values make the analysis of changes to profitability and equity harder<br>• Fair values are difficult to analyse / recalculate – concerns with the quality of disclosures<br>• (More) information based on management intentions is necessary for financial analysis | The meaningfulness of the qualitative characteristics is challenged as:<br>• Fair values are seen as having poor predictive ability<br>• The faithful representation of fair values, conceived as dependability, is emphasised<br>Direct evidence from users of financial statements is not aligned with the key findings of value relevance studies |

(Continued)

Table 1. Continued.

| Assumptions found in IFRS and academic literature | Problematisation from empirical evidence and analysis |
|---|---|
| The decision-usefulness of fair values can be deduced from:<br>• the current conceptual framework (Barth 2014)<br>• an alternative conceptual framework (Sutton et al. 2015) | • There are no 'right' or 'better' measurement concepts to be deduced from conceptual frameworks<br>• The decision-usefulness of fair values is contingent and cannot be theorised prior to practice |
| Empirical evidence can provide theoretical coherence to the decision-usefulness of fair values (Dean and Clarke 2003, Jonas and Young 1998) | |
| Decision-usefulness in general can be challenged:<br>• by its economic rationality (Williams and Ravenscroft 2015)<br>• by the IASB's lack of knowledge about users and their needs (Young 2006) | • Users do not have to be 'irrational' to question the usefulness of fair values to their decisions<br>• Soliciting and incorporating users' views in conceptual frameworks will not improve the decision-usefulness of fair values as this is and constructed in practice |

. by the lack of user involvement in standard-setting (Durocher et al. 2007) . Users are not so concerned about the market logic of fair values – more concerned about The decision-usefulness of fair values can be dependability challenged:

. The assumptions underlying decisionusefulness, and not just the disconnect

. by the incoherence of the IASB's market between groups, are problematic logic of fair values (Barker and Schulte 2017, Hayoun 2019, Hitz 2007)

. by the dissonant relationship between users and standard setters (Georgiou 2018)

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accordance with the key requirement of IFRS 13 for fair values to represent the market perspective of value. A related assumption is that the decision-usefulness of fair values can be problematised on its logic that fair value is a market-based measurement which is contrasted to an entity-specific measurement. Hayoun (2019) challenges the market/entity dichotomy by demonstrating how the IASB's formal conceptualisation of fair value being purely market-based is incoherent since measurement prescriptions also include entity-specific dimensions (see also Lennard 2018). Similarly, Huikku et al. (2017) challenge the market/entity dichotomy when they discover that goodwill impairment tests include traces both from inside and outside the firm. These studies presuppose that the usefulness of these valuations for financial statement users is questionable because of the market logic of fair values. However, these assumptions are open to scrutiny. To what extent the pervasiveness of the market logic of fair values is seen as a problem by financial statement users remains unknown.

Wesummarise the assumptions we have identifiedin the literature as discussed abovein the left column ofTable 1.In seekingtochallengethese assumptions we formulated the question of:how is decision-usefulness perceived and experienced by analysts when using fair values in their work?

## 3. Research methods and analysis

To explore our research question we draw on interview evidence collected from 17 sell-side financial analysts based in London. The interviews were carried out between January and April 2012 and enabled the direct capture of evidence on the decision-usefulness of fair values in a real world setting in which accounting is used. This is important given the lack of interpretive studies that directly engage with financial statement users (Durocher 2009). The timing of the interviews is also important given the call by Gassen and Schewdler (2010) to explore investment professionals' perceptions of measurement bases following the credit crisis that commenced in 2008. We aspire that our methodology will demonstrate the benefits of engaging with the field in researching financial reporting complementing recent calls for field research in auditing (Malsch and Salterio 2016, Power and Gendron 2015). The choice was made to interview sellside analysts given their important role in capital markets as information intermediaries between companies and buy-side analysts and the extensive use of financial reporting information in their work (Arjaliès et al. 2017, Imam and Spence 2016). The focus was further restricted to analysts covering companies in the financial sector where the use of fair values is more prevalent. It is important to note that, although we draw on evidence from the UK, our analysis is not idiosyncratic to the UK as we develop arguments in relation to the conceptual underpinnings of IFRSs that are used internationally.

Two methods were employed to access this elite group of financial statement users: 'coldemailing' and 'snowball' sampling. Cold-emailing consisted of emailing 72 analysts included in lists published on the websites of companies in the financial sector. This produced eight positive responses while a further nine were obtained via snowball sampling from participants.[5] The email invited the recipients to participate in a short academic interview about their use of fair values. Nine analysts covering banks, four covering insurance companies, and four covering other financial companies were interviewed. We feel our interviews generated significant insights

Table 2. Interviewees' demographic information.

| Participant – industry | Analyst experience (yrs) | Total work experience (yrs) | Educational level | Professional qualifications |
|---|---|---|---|---|
| Banks | 6 | 6 | BSc, MSc, MBA | CFA |
| Banks | 8 | 10 | BA, MSc, MBA | – |
| Banks | 7 | 7 | BSc | – |
| Banks | 5 | 5 | LLB | CFA |
| Banks | 16 | 16 | BSc, MSc | – |
| Banks | 12 | 12 | MSc | ACA, CFA, ACT |
| Banks | 15 | 15 | BA | ACA |
| Banks | 14 | 16 | BSc | – |
| Banks | 12 | 12 | BA | CFA |
| Insurance | 1 | 4 | BSc, MBA × 2 | CFA |
| Insurance | 5 | 5 | BA | CFA |
| Insurance | 5 | 5 | BSc, MSc | CFA |
| Insurance | 7 | 7 | BA | – |
| Other financials | 2 | 5 | BSc, MSc | ACA |
| Other financials | 5 | 8 | BSc | ACA, CFA |
| Other financials | 8 | 12 | BSc | ACA, CFA |
| Other financials | 7 | 9 | BSc, MBA | CFA |

Notes:

1. BA = Bachelor of Arts, BSc = Bachelor of Science, MSc = Master of Science, MBA = Master of Business Administration.
2. ACA = Chartered Accountant, CFA = Chartered financial analyst, ACT = Corporate treasurer professional.
3. To protect the anonymity of the interviewees, we do not link the quotations from transcripts with the corresponding individuals in this Table.

to enable us to answer our research question (Dai et al. 2019). Demographic details of our participants are shown in Table 2. All respondents have at least one degree in maths, economics, finance, and/or business, and the majority also hold a charter. Those who do not hold a charter explained that the specific nature of their degree was deemed sufficient by their employers. Their average experience in their current or a similar role is about nine years. The qualifications and experience of respondents is evidence of the expertise of the sell-side analysts in our study. This evidence is important for our study because the conceptual framework's notional users are expected to have an acceptable level of financial knowledge and be willing to study the information with sufficient rigour in order to understand the financial information.

At the request of participants, nine of the interviews were conducted in public places due to the shortage of meeting rooms or concerns about anonymity. The remaining interviews were held at the participants' workplace. Participants were assured full anonymity and confidentiality in accordance with the ethical approval received for this study by the employing University of one of the authors. Given the difficulties involved in obtaining participants, potential interviewees were asked for 30–45 min of their time. The informational content of the interviews, excluding the initial and concluding exchange of pleasantries and explanation of ethical considerations, lasted on average for 30 min. Interviews were transcribed verbatim and in full. Participants were invited by email to sign off the transcribed interviews thus giving them an opportunity to verify the accuracy of the data. This resulted in minor changes in one transcript.

The interview guide was divided into five main sections: respondents' demographics, sources utilised in decision making, users' experiences with and perceptions of fair value reporting, users' views on the decision-usefulness of fair values as defined by the qualitative characteristics of the conceptual framework, and users' needs in terms of the qualitative characteristics of the conceptual framework. The aim of the interviews was to seek empirical insights about the decision-usefulness of fair values. The interview guide was tightly constructed to enhance efficiency but without compromising its semi-structured nature. Open ended questions were used to discover 'people's attitudes and beliefs' towards fair values (Bernard and Ryan 2010, p. 35). Two pilot interviews, undertaken with one former analyst and one accounting expert, led to minor changes to improve the face validity of the interview guide and to reflect the limited time availability of the participants. A summarised version of the interview guide is shown in Appendix 1.

In addition to the semi-structured nature of the interviews, participants were asked to rank the six qualitative characteristics of decision-usefulness with respect to fair values. This was typically explained to the interviewees in the following manner:

> So thinking about fair value and your information needs as an analyst. If I were to tell you these are the six characteristics that make information useful, how would you rank them in terms of importance for your day to day job? And don't tell me what you think information currently looks like, tell me what you would like the information, fair value specifically, to look like. (Interview with insurance

[5] Further efforts to establish contacts were made using an announcement to the 'Equity Research Analysts' networking group on LinkedIn. The announcement stipulated the nature of the research and sought responses from those interested in participating. There were no responses to this invitation.

analyst 3)

Interviewees were also provided with the definitions of the qualitative characteristics. This ‘testing’ of the qualitative characteristics was not done mechanically. Rather, space was provided to the interviewees to reflect on what they consider decision-usefulness to mean to them and how it is experienced in their work. We were surprised at how forthcoming and reflective our interviewees were, given comments in the literature that analysts usually refrain from criticising

Table 3. Comment letters by analysts to the IASB.

| Project | Due Process Document | Deadline for submission of comment letters | Total number of comment letters | Comment letters by analysts and their representatives | Comment letters discussing measurement |
|---|---|---|---|---|---|
| Conceptual Framework | Discussion Paper: A Review of the Conceptual Framework for Financial Reporting | January 2014 | 238 | 19 | 17 |
| Conceptual Framework | Exposure Draft: Conceptual Framework for Financial Reporting | October 2015 | 241 | 16 | 9 |
| Fair Value Measurement | Request for Information: Post-implementation Review — IFRS 13 Fair Value Measurement | September 2017 | 67 | 4 | 4 |
| Total | | | 546 | 39 | 30 |

accounting (see for example, Durocher et al. 2007, Durocher and Gendron 2011). The interviewees were asked to rank the characteristics from 1 to 6 (with 1 being the highest value and 6 being the lowest value) but advised that they could assign the same value to any characteristics that they considered were equally important. Some interviewees ranked the characteristics from 1 to 6 while others used less than 6 values for their ranking.

We complement the information from interviews with information collected from comment letters written by users to the IASB. We collected letters authored by analysts and their representatives in relation to three consultation papers: (1) the 2013 discussion paper on the conceptual framework, (2) the 2015 exposure draft on the conceptual framework, and (3) the 2017 request for information on the post-implementation review of IFRS 13. We identified 39 letters from analysts of which 30 discussed issues in relation to fair values (see Table 3 for more information on the letters analysed). Information from these letters enabled us to corroborate and update some of the findings from the interviews as well as to identify new themes.[6] The letters provide an interesting addition to the interview findings in that we can see how analysts respond to questions asked by the IASB about the decision-usefulness of fair values. One would expect that as the comment letters are directly addressed to the IASB and result from more careful reflections than our discussions in interviews, they would contain lower levels of dissatisfaction and concern with fair values and decision-usefulness. It was, however, interesting to discover that financial statement users were equally forthright in their responses and criticisms in both the letters and the interviews.

Qualitative techniques were used to organise and analyse the data collected from the participants (Golden-Biddle and Locke 2007). All three authors analysed the data. The interviews and comment letters were first coded by associating text with the assumptions identified in the literature. This increased inter-coder reliability, with exceptions being resolved through further discussion between the researchers. We then reorganised the data according to our themes of interest before systematically analysing the transcripts. The coding and analysing of the data was an iterative process in which criteria for different codes were generated before being established through further analysis. A systematic approach to data reduction, classification and interpretation was employed in order to minimise the threat of analytical bias inherent in the use of qualitative data. We created a table summarising the key themes for each interviewee from the interview transcripts and from the comment letters. This summary forms the basis of the findings presented in this paper, and are fully auditable back to the original data collected from the interview transcripts.

We organised our findings according to the three main assumptions by the IASB on the decision-usefulness of fair values: the general usefulness of fair values to making decisions, the nature of the decision-usefulness of fair values, and the assessment of the qualitative characteristics of the decision-usefulness of fair values. We present these three themes in the following section. We make use of numerous interview excerpts with the intention of bringing the neglected 'user voice' in the accounting literature (Georgiou 2018). We further interpret our main findings in relation to the key assumptions we identified in the academic literature in the following section. Our key findings and analysis points are summarised in the right column of Table 1.

[6] At the time the interviews were carried out the 2010 version of the conceptual framework was in place, which updated the objective of financial reporting and the qualitative characteristics of useful financial information. Although discussions about incorporating measurement principles in the conceptual framework were underway, these were first presented by the IASB in its 2013 discussion paper and revised in its 2015 exposure draft. The comment letters therefore provided us with analysts' views in relation to how the principles were formally developed in the revised conceptual framework.

## 4. Empirical evidence

Awidely accepted function of conceptual frameworks is that of putting concepts beyond question (Hines 1989, 1991, Young 1996). One such important concept is the decision-usefulness of fair values which is established as a largely indisputable ideal. This reiification is achieved via rhetoric that carries a range of paradigmatic assumptions. The findings from interviews and comment letters we present in this section problematise some of these assumptions underlying the revised IASB conceptual framework.

### 4.1. Fair values are not unquestionably useful to decision-making

A key assumption underlying the conceptual framework is that the decision-usefulness of fair value information reported under IFRSs is mostly unproblematic. That is, some form of stable, mechanical connection exists between reported fair values and investment decisions and advice. A common statement made by analysts in the interviews is that fair values are an integral part of the information reported about an entity and it is therefore essential to take notice of them. However, at the same time, they express numerous qualifications to the general decision-usefulness of fair values as laid out in the conceptual framework. When asked about whether fair value measurements and disclosures impact their decisions, analysts responded along the lines of:

> In terms of, of arriving at a rating, whilst we look at the fair value movement and those sorts of things, you know, I think it's, I wouldn't want to say it's the most important thing for me ... I'd be more inclined to look at, you know, what's happening to the revenue generation and what's happening to the impairments and credit quality in terms of measured by arrears and those sort of things because I think that's more where the problems are. (Banks analyst 4)

> The stock can react to big movements in those numbers [fair values] or big surprises in those numbers. So, yes, you need to be aware of what's going on [in the market] but I don't think, I wouldn't say it is the be all and end all for your analysis. (Insurance analyst 1)

Such reflections demonstrate how analysts view the decision-usefulness of fair values less humbly than how it is envisaged in the conceptual framework. Analysts said they take note of the movements in fair values in terms of how they affect reported performance but these values would not in any case constitute a crucial element for their investment recommendations.

An important finding from our interviews is that fair values have caused confusion for the analysts in trying to figure out what is fair valued, what is not fair valued, and how fair value changes affect the income and equity figures. An interviewee said:

> In many occasions it's [fair value accounting has] created confusion. Because it feels, it seems as if some items are fair valued and some items aren't being fair valued. And also, depending on how assets are held for accounting purposes, then those fair value movements may or may not be translated into the profit and loss account, may or may not be translated into movements in capital, or movements in tangible book value ... Certain assets are mark to market, certain assets are mark to model, or mark to make-believe, as we sometimes say. (Banks analyst 4)

Interviewees discussed concerns with interpreting fair values and with the irrationality of unrealised fair value gains and losses reported in the income statement and how these relate to the cash flows of the reporting entity. For example:

> I find that the bank balance sheet's difficult. Because half the balance sheet, or a lot of the balance sheet, is in historic cost, and a lot of the balance sheet is in fair value. And so, how useful is it therefore to have a balance sheet that's half in fair value and half not? So, yes, I suppose I do use it [fair values]. But, it is not exactly straight forward to work out what that is really telling you. (Banks analyst 8)

> There will be a lot of companies where there'll be a difference between P&L [profit and loss] numbers and the cash flow numbers. So, you need to look a bit deeper into, okay, why the difference is and when there are differences and there can be differences in the expectations of market around dividends, earnings, valuations. So, P&L doesn't give the right picture for, for example for companies where cash earnings is quite different from P&L earnings ... Because IFRS forces you to do few things which don't sound logical and which are not very straight forward for people to accept. (Other financials analyst 3)

These quotes indicate how analysts like to have simplicity in accounting and how the use of different measurement methods is seen as going against this. Analysts emphasise how different forms of fair valuations make it difficult to incorporate accounting data in financial analysis and to predict how unrealised amounts will turn out. This becomes a particular concern when trying to reconcile earnings reported in the income statement with earnings reported in the cash flow statement. Fair values can in fact cause mistrust in the reported figures and prompt more research, as we discuss below. These reflections by analysts challenge the assumption inherent in the conceptual framework that fair values are largely unproblematically useful to the analysis of profitability and equity. Analysts' testimonies also question Barth and Landsman's (2018) reasoning that fair value earnings can be easily disaggregated into components that can be used to assess firm value.

A related concern of analysts with the usefulness of fair values is how it is difficult to interpret them given that they cannot establish how the values were computed in the first place. They justified this on the grounds that there is not enough information for them to recalculate fair values. Two representative quotes are as follows:

> Because sitting from an outsider perspective as an analyst, you don't have all the detail to do that [recalculate fair values]. Because I think, you know, if you are trying to revalue some of the assets you don't really know enough detail to do that and it's really difficult. I suppose what you could say, you can see if somebody's got a similar portfolio of assets and then, you know, what are they doing? Say one company's revaluing them by 20% the other's doing it by 5%. You could potentially try to look into that but that's quite difficult. (Other financials analyst 1)

> There is no way that I could ever, or anybody, realistically would be able to copy that [fair values] or emulate it, or repeat it, I don't think it's actually possible. I think maybe a more practical way of

> dealing with it is to get the accountants to somehow, maybe they do already, I don't know, maybe the accountants could sort of talk with each other to understand or to make sure that they are being as consistent as is possible across all those different instruments. Because there must be some high level assumptions that go into all of these things like your macro-economic outlook and so on. And it would be important if we could know that they had commonly agreed, you know, a set of important assumptions that drive a lot of the valuation. And then we know that it could come down to individual assets, all of which are going to be slightly different from institution to institution, you can never value them precisely but to know that the auditors are vaguely consistent would be helpful. (Banks analyst 1)

These responses challenge the premise that the methodology for computing fair values can be somewhat consistent given that they are determined from the perspective of the market participants rather than from an entity-specific perspective. Not being able to unpick fair valuations is linked to analysts' disappointment with the quality of disclosures on fair values. This was an issue often raised in the interviews. The following quote illustrates this disappointment and the actions taken to deal with it:

> Pension fund deficit and A[7] bank's disclosure. It's the sort of thing that you hammer away at them. What is the, you know, what are the liabilities, what are the assets? Where are we in terms of overall liability? How are you measuring this, what's funded, what's unfunded? I mean it was pretty unclear. And if you spoke to investor relations, for example, they'd say, okay, the first call would be batted off. The second call: 'okay, we'll take a look at it and we'll come back'. And then, when they start telling you: 'well you can see on page 272 of the annual report, there's an opacity there that requires some untangling'. So it's a case of: if you push and push, you know, you can sometimes help disclosure in speaking to the business but it's not always laid out in the most, necessarily, user friendly way. (Banks analyst 5)

It is thus evident how an analyst enters into a 'negotiation' process with the reporting company to obtain the usefulness of fair values. This is in line with the findings by Bean and Irvine (2015) that the quality of disclosures on fair values are not viewed by financial statement users as satisfactory for their decision-making. In response to a question on what could be improved with fair value accounting another analyst remarked:

> We would like to see an enforced principles-based approach to disclosure. So how is a company managing that position, how does it think about that position, what's the useful ... what's the information content that we should take? So, how does the company regard that piece of information, is it useful? If it's not useful what should we look at? And, for those things to be comparable across businesses, which they're not. (Banks analyst 2)

A related point made by the Corporate Reporting Users Forum (CRUF) (letter, 2017) is that current disclosures do not enable an analyst to figure out which portion of fair value changes is realised and which is unrealised which is not useful to investment analysis. Again, the call for 'principles' in the interests for consistency here is interesting, given that fair value measurement is presumed to produce more consistent values for similar items compared to other methods of measurement.

The assumption by the IASB that the use of the 'business model', as a means of determining how amounts are measured in financial statements (for example, how an asset contributes to future cash flows), results in relevant information has not been accepted as unproblematic by financial statement users. The Chartered Financial Analysts (CFA) Institute (letters 2014, 2015) has expressed concerns that this thinking results in entity-specific measurements based on management intent. The CFA Institute is concerned that this approach injects management bias in measurement and therefore does not provide relevant, faithfully representational, and neutral information to users, and can obscure comparability. However, other commentators, such as the Swedish Society of Financial Analysts (SFF) (letter 2014) and Standard and Poor's (S&P) (letter 2014), expressed support for the entity's business model viewpoint and asked for it to be developed further.[8] What analysts said in the interviews is that they are in fact interested in information about the management's view of accounting measurements, including management intentions, without necessarily seeing this as contrasting information based on the perspective of the market. For example, two interviewees commented as follows:

> What you don't get is you don't get management's view as to if they did, if they can't sell these loans, so there's no point talking about fair value in the sense of a market value, but they don't give you a view as to what, what they actually think the NPVor whatever, as it were, is likely to be of that loan book. So, their own view as, for example, as to how much of expected loss they're really expecting to incur. (Banks analyst 4)

> I'd like to see more clarity on what management is incentivised to do, and I don't think there is any, there is very little of that ... If you go through it [the annual report] you're trying to work out what exactly is Mr. D incentivised to do. You know, is he incentivised to increase the dividend or is he incentivised to take as much risk as possible, or why are the banks so scared of having high capital ratios? (Banks analyst 8)

These testimonies resonate with Georgiou's (2018) finding that users are interested in accounting values that inform them about the performance of the entity. The findings we present in this sub-section demonstrate how the assumed natural and harmonious relationship between fair value information and user decision-making is brought into question. Analysts say that interpreting fair values presents numerous challenges for their work. What we discover here is that the assumptions inherent in the IASB's conceptual reasoning of fair values are questioned at the empirical site. The usefulness of fair values is not seen, or experienced, as truth or fact by analysts. The analysts' work is not a mechanical process that transforms inputs into outputs, but involves subjective, discretionary assessment of accounting numbers, which is what the IASB seems to overlook. Our findings on how the decision-usefulness of fair values is considered relative to other factors are discussed in the next sub-section.

## 4.2. The decision-usefulness of fair values is contingent on contextual factors

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7 All examples used by interviewees are anonymised here.

8 The CFA Institute is interpreting the business model approach for deciding how to measure items as a contrast to a market-based approach to measurement. The concerns therefore raised are in line with the Institute's view that fair value accounting provides the most decision-useful information (see especially letter 2014). As Georgiou (2018) shows this view by the CFA Institute is not mainly shared by individual users of financial reports.

A second major assumption implicit in the IASB conceptual framework is that the decision-usefulness of fair values is absolute and independent of the context of decision-making. Our interview evidence challenges this assumption with analysts saying that decision-usefulness is conditioned by a variety of factors. One such factor is the use of fair values in combination with other information.

This 'combined usefulness' of fair values is realised only when they are triangulated with other pieces of information, including information drawn from meetings with management, data of similar companies, industry trends, and Basel pillar 3 disclosures. As two analysts explained:

> I mean, the kind of feeling is that the numbers are kind of the starting place rather than the end of the decision-making process. And combine that with: discussions with management, targets that they set, comparisons between different banks are very important, as well when it comes to making decisions and, of course, stuff like valuation of the share price etc. is all included in that obviously as well. (Banks analyst 1)

> The financial statements don't tell you the whole story, and in a nutshell, I think to be an effective equity analyst, to be effective in any kind of management it, it's a case of marrying the published numbers with other evidence. (Banks analyst 5, emphasis added)

The above responses show how fair value numbers are only 'a starting place' in financial analysis as they help raise more questions rather than provide answers. As an analyst explained, a high proportion of reported level 3 fair value assets would be 'an invitation for a conversation' (Banks analyst 3) with the investor relations and the management of the company.

Existing studies document how analysts obtain valuable information, not required by IFRSs, from interactions with management (Bamber and Abraham 2020, Barker et al. 2012, Graaf 2018). Interviewees, however, emphasised the importance of these interactions to get information that provides 'additional colour' (Banks analyst 4) on reported fair values. Meetings with management are 'about understanding how a business works, what its prospects are, what steps are being taken to manage costs, grow revenues, ameliorate credit risk' (Banks analyst 3). They provide a forum where the analyst 'gets a good handle on the numbers' (Other financials analyst 2) and they are 'a good opportunity to fill in the gaps' (Banks analyst 5). Such reflections challenge the assumption made by the IASB that fair values are decision-useful regardless of the context of the decision and that they can be easily used with information from other sources. Evidently, analysts try to make sense of company performance by combining fair values with non-accounting information obtained mostly through meetings with management.

The usefulness of fair values is also contingent on their verification by auditors. There was consensus among the interviewees about the importance of the role of auditors and regulators in providing some sort of 'comfort' for reported fair values. This issue emerged especially when analysts were asked about the verifiability of fair value numbers – a topic we return to in the next sub-section. For example:

> Interviewer: Do you think fair values satisfy the qualitative characteristic of verifiability?
>
> Interviewee: I mean, we will not be able to verify. So we understand, you know, auditors are supposed to do that. Management are supposed to act in good faith. So that would be the least important because we know we're never going to get there. (Banks analyst 2)

It became apparent in the interviews that analysts consider themselves to be on the 'outside' where they cannot get all the information they need to verify fair values and as such have to rely on the 'inside' knowledge of auditors. Two representative quotes on the difficulties of ascertaining the 'correctness' of fair values are:

> I would say we don't sort of try to second guess what mark to model, or mark to make-believe numbers might be. Recognising that it is likely that some banks have got more conservative valuation models than others. But, you know, it's very difficult to second guess that from outside. (Banks analyst 4)

> Basically, from the outside there's no way of telling whether they're correct on their level 3 valuations or not. (Banks analyst 6)

These quotes show how trust in auditors underlies analysts' view of reported fair values (Malsch and Gendron 2009), despite the numerous challenges involved with auditing fair values (Griffith 2020, Humphrey et al. 2009, Smith-Lacroix et al. 2011). Analysts depend on auditors to verify the fair value numbers and, in this way, improve their usefulness. However, they see themselves as being on the 'outside' with not much option but to hope that fair values have been appropriately audited.

The extent to which fair values are considered useful for the work of financial analysts is also inextricably linked to how analysts apply their own judgement and expertise 'in context'. The ways in which the analysts' use of fair value information can actually contribute to its decision-usefulness was something that came through strongly in all interviews. As an analyst explained:

> I mean the bottom line is that it's my job to come up with my own idea of earnings … My experience is that you can gain a far better understanding in just about anything you like, provided you've been a responsible user of information at the time … If a company had double the level 3s to everybody else then I would start looking at the history, I would say, well, has it always been the case, what kind of earnings have we seen? So, you would see it in context. But, if all of a sudden, it doubled compared to what everyone else had, then immediately that would be a reason to pick up the phone. (Banks analyst 3)

The interviewee went on to describe the factors that are usually at play when figuring out what the fair value numbers are saying. These factors, which require the judgement and expertise of the analyst, include the audit process, the profile of declared earnings over time, evidence of outlier performance, tenure of management, and track record of communications with company management.

The usefulness of fair values, therefore, depends on the analysts' own due diligence and proprietary modelling. The ability of analysts to 'see through' contentious fair value measurements was often talked about in the interviews. An analyst, for example, explained how s/he analyses fair value movements to figure out whether they represent hedging or whether the bank is taking excess risk (Other financials analyst 2). Another analyst talked about how s/he strips out movements that are of one-off nature and how s/he analyses when something moves from the 'trading book' to the 'banking book' (Banks analyst 6). It was obvious in the interviews that analysts see it as their job to 'use the numbers sceptically rather than naively' and adjust numbers, such as unusual pension contributions, to make them 'reflect the reality going forward' (Banks analyst 8).

According to our interviewees, this 'reality' cannot be captured by financial reporting but is a matter that lies in analyst expertise and reflexivity. Interestingly, as shown in the excerpt below, an analyst remarked that there is no 'objective truth' out there waiting to be represented by accounting, suggesting that investment decisions and recommendations are mostly contingent on the analyst's rigorous analysis:

Interviewer: Does fair value give you all the necessary information you need to make decisions?

Interviewee: Your question implies that there is some sort of objective truth which the accounting is trying to reflect. Whereas actually 20–30 years ago the disclosure was much, much worse but it didn't mean that investors were much worse at making the right decisions. If anything, investors have got worse because they've got more information and that's mainly made them over-confident. So, I'd agree that I have the necessary information but that doesn't, I'd always like to have more knowledge. Maybe not more information, but more insight. (Banks analyst 8)

Such positions by analysts suggest that fair values are only useful in a narrowly defined, specific context, rather than being part of a 'one-size-fits-all' approach as the IASB seems to imply. The decision-usefulness of fair values also relates to factors specific to the entity being analysed as well as the general market environment at the time the analysis is carried out. This 'specificity' of the appeal of fair values was articulated by an interviewee as follows:

> I would say that the appeal of fair value changes much more rapidly than the accounting standards could aspire to. So, depending on the specific market and the specific moment in time, there will be cases where we feel that banks are willfully misrepresenting their figures by under-using fair value where they should reasonably be taking it. There'll be other times where we know that fair value would be a better way of charactering risks than held-to-maturity accounting, but we can understand why it would be potentially disruptive to financial stability, or to other economic goals to use fair value, and there'll be times where we think fair value's daft. That's true in different pieces of the balance sheet, in different ways, different times for different companies. It's extremely dynamic, I would say ... They [fair values] will be misleading at times. Under some circumstances they would provide clarity and other times they would muddy the waters. I think under certain circumstances they assist me and under other circumstances they make it significantly more difficult. (Banks analyst 2)

The interviewee went on to describe the example of a bank s/he is analysing that would report its performance better by using less fair value accounting because its business is driven by deposits and by investing those deposits. The interviewee explained how fair values are not considered useful for valuing a loan book when the bank has a strong funding structure and has no intention of selling it. Depending on the specific case in which fair values are used, the analyst commented that 'accounting standards are, a convenience, or an excuse, or an inconvenience, or a disaster'. What comes through this interviewee's views again challenges taking the decision-usefulness of fair values for granted regardless of the circumstances of the decision being made.

An additional issue affecting the usefulness of fair values is the sheer size of the reported fair values by some companies and their underlying complexity:

> Although it may be important for a bank, because you've got in C bank's case 40 billion of tangible equity and one and half trillion of assets. For most investors and analysts you have to take some of the stuff on faith. Because no level of disclosure can give you sufficient comfort or granularity on a balance sheet of that magnitude, so we tend to take a very, very high level view, an episodic interest in the fair value. (Banks analyst 3)

The 'episodic interest' here again relates to the particular circumstances of the company being analysed. A related concern is how the usefulness of fair values is compromised in volatile markets:

> In volatile markets, you tend not to believe the fair value. I think you start to take haircuts [for example, decrease equity by a certain percentage] and then it depends on how conservative and how aggressive you want to be with valuations ... Where you see volatile and choppy markets and you see, you know, falling markets I think you will see less faith in fair value, and more, and it adds to the cyclical effects or circular effective of falling markets because you have fair value. If you take a haircut that looks okay today; tomorrow you come again and the market falls again, again you take another haircut and it just drives the market either down or upwards. (Other financials analyst 2)

This quotation reflects how analysts experiences with volatility around the time of the 2008 financial crisis (Andre et al. 2009, Laux and Leuz 2009) have left them feeling uncertain with the with the usefulness of fair values. Another interviewee discussed how uncertainty is in fact an inherent property of valuation, which is not properly acknowledged when the decision-usefulness of accounting measurements is assumed by standard setters:

> These things are cyclical and so, expecting accounting information to tell you something that - how can I put this? What is never taught in accounting is the fact that information is non-linear in a way that, once you start thinking about it, it is very obvious, it is a very obvious point to make. But, there are some much deeper epistemological questions than accountants ever have to deal with. But they

Table 4. Analysts' ranking of the qualitative characteristics based on the usefulness of fair values.

| Characteristic | Ranking | Average | Range | Number of analysts giving highest ranking (out of total of 17) |
|---|---|---|---|---|
| Faithful representation | 1 | 1.9 | 1–4 | 10 |
| Comparability | 2 | 2.1 | 1–5 | 8 |
| Timeliness | 3 | 2.5 | 1–6 | 9 |
| Relevance | 4 | 2.7 | 1–6 | 6 |
| Understandability | 5 | 3.5 | 1–6 | 6 |
| Verifiability | 6 | 3.8 | 1–6 | 3 |

> ought to at least know the framework of the epistemological thinking about whether there is any sort of, if the accountants sign off on a number then it doesn't necessarily mean that you're going to get that number in 2 years, in 2 months' time, if you're a forced seller. (Banks analyst 8)

The evidence discussed in this sub-section challenges how decision-usefulness, when applied to fair values, is assumed to be an independent, or an absolute, concept. As discussed in section 2 above, decision-usefulness is advanced in terms of potential rather than the actual influence on decisions, which would require a consideration of the context in which such decisions occur. Yet, what we discover here is that the extent to which fair values can usefully contribute to investment analysis depends on the realities of how the analysis is done and the particular context in which it is conducted. Factors impacting the decision-usefulness of fair values include their use alongside other sources of information, their verification by auditors, the professional expertise of the analyst, and the particular company and market conditions in which fair values are reported. In fact, fair values become useful in combination with other non-accounting information in a particular context, something which is overlooked in the decision-usefulness 'theory'. This evidence therefore demonstrates how decision-usefulness as advocated in conceptual frameworks cannot constitute an all-encompassing feature of measurements in financial reporting. Instead, decision-usefulness is decidedly contingent on situated judgement and is not, and cannot be, universally valid when accounting is used in practice. Findings here thus problematise the implicit assumption in the conceptual framework that the decision-usefulness of fair values can be thought of independently of specific decisions being made. The importance of this disregard of context by the IASB is underlined by Joos in Mora et al. (2019, p. 18), who says that '… it is good to think about putting rules together to guide accounting. However, it is equally important to think in the same context about how these accounting numbers will feed into the market'. We next consider how the qualitative characteristics of decision-usefulness are assessed by analysts.

### 4.3. The meaningfulness of the qualitative characteristics needed for fair values to be decision-useful is challenged

A third assumption our empirical evidence problematises is the relationship between the desirable qualitative characteristics of accounting information laid out in the conceptual framework and the decision-usefulness of fair values. According to the IASB (2018, para. BC2.7), financial information should have the qualitative characteristics of relevance and representational faithfulness enhanced by comparability, verifiability, timeliness and understandability, 'if it is to meet the objective of financial reporting'. This implies that these characteristics are meaningful and operational to providing decision-useful information. We begin this sub-section by presenting the results of the exercise in which interviewees were asked to rank the six qualitative characteristics in order of importance when using fair value information. As shown in Table 4, our interviewees do not consider relevance to be the ultimate attribute that fair value information should possess, ranking it fourth out of the six qualitative characteristics. This is surprising given that relevance is assumed by standard setters to be the utmost quality accounting information should possess in order for it to be decision-useful. The results indicate that faithful representation is regarded the most important characteristic fair values should possess in order to be decision-useful, followed by the characteristic of comparability.

When asked to verbalise their thoughts while ranking the qualitative characteristics, interviewees expressed the view that fair values have a poor predictive ability that limits their usefulness in financial analysis processes. In fact, some analysts were vehement that fair values are not considered relevant to predicting future earnings. For example:

> Nowhere in my model does a view on forward value changes in fair value assets feature in prediction of earnings, does that make sense? So if a company came out and said: 'hey, we made £300 million in the change in fair value'. I'd probably strip that out, so I would disagree with that. This is not to say that the disclosures aren't valuable, it's just that it's not my primary output as an EPS [Earnings Per Share] number and it doesn't feature in that. (Banks analyst 3)

> I don't think fair value is about making predictions. It's about trying to reflect reality as it is. If anything, historic cost is easier to make predictions from because you've got, if you got a historic cost balance sheet and you've got loans you can take, you can say: 'right, I'm going to take a haircut of 5% on mortgages or 2%,

> I'd take a haircut of commercial property exposure of 5%'. Whereas if it's fair valued, you don't know what's already happened, what's already in the fair value assumptions and therefore how more conservative you should be on top of the fair value assumptions, so ... it just strikes me that fair value is not really about forecasting the future. It's about trying to reflect reality. It's not trying to be helpful about future expectations. (Banks analyst 8)

The analysts interviewed held very strong views about fair values having more confirmatory rather than predictive value.

> I think in terms of my forecasts, I don't think this [fair values] would be the main driver. I don't think that this, because this is what's included in the financial statements, yeah? So this will not, this would not really drive my forecast or my, my core view. It will give me some comfort. So, for example, if I, you know, have got my numbers out there which I would have done probably about 2 months before the financial statements come out ... I don't think I would really use it for predictive purposes that much. Because I think given the nature of fair value ... you know they can change quite quickly. (Other financials analyst 1)

Fair values do not therefore always provide information that is relevant to future cash floworiented decisions as assumed by the IASB. These reflections problematise the view that expectations about the future can be meaningfully incorporated in accounting measurements and result in more useful information for decision-making (Barth 2006). Allowing such fictional expectations in accounting values is not seen as improving the management of risks (Beckert 2016, Roberts and Wang, 2019). This is particularly the case with the information provided about banks' loan losses. The following conversation illustrates this issue:

Interviewer: What would you like to see changed to improve your use of fair value information?

Interviewee: Bring back the Companies Act ... The old UK GAAP reporting in effect forced you to look through and say: 'where are we right now on this asset? What do we think this asset's recoverability is?' That would be a far more sensible basis for valuation ... Under IFRS, when assets start to turn bad it takes a long time for this to feed through ... So, that's the problem, there's always a tremendous lag in terms of the, in terms of the reported statements and one key area is the reporting of impairments. At what point are you fair valuing the asset values? (Banks analyst 5)

This quote reflects a disappointment with IFRSs providing less useful information than UK GAAP about loan losses. This is because IAS 39 introduced stricter requirements for evidence about incurred losses compared to UK GAAP (O'Hanlon 2013). It remains to be seen how the more forward-looking expected loss approach of the revised standard for financial instruments, IFRS 9, (Hashim et al. 2019, Pucci and Skærbæk 2020) will affect the usefulness of reported losses.

Interviewees highlighted the importance of fair values being faithfully representational of economic reality so that they are useful to their decisions. This again challenges the assumption by the IASB that faithful representation is a characteristic of information to be achieved primarily through the relevance of this information to decision-making (see, for example, Power 2010 on this issue). An interviewee said:

'faithful representation seems to encompass nearly everything in many ways so that's why I've put that number 1' (Insurance analyst 4), while others noted that 'I think faithful representation is absolutely essential' (Banks analyst 1), and 'if it's not faithful representation then obviously it's not accurate, it's unusable' (Insurance analyst 3). The significance of faithful representation was also discussed by users like the International Corporate Governance Institute (ICGN) (letter 2014), the UK Shareholders' Association (UKSA) (letter 2014, 2015), and the Association of British Insurers (ABI) (letter 2014) in their comment letters to the IASB. These commentators used the term 'reliability' to raise concerns with estimation in measurement and emphasised how 'prudence' is vital to achieve such reliability.

Fundamental to the high ranking of faithful representation was the view that the company should provide them with as much complete information as possible and they can then decide what is relevant to their decisions. An analyst commented:

> I don't think it's important that they give me only what is relevant because what's relevant is really dependent on me, not them. So I think relevance is not important, I can always ignore something if it's irrelevant whereas if it's missing, if it's not complete then that's going to be a problem for me. (Insurance analyst 2)

Analysts are interested in fair values faithfully representing economic reality, not so much in terms of factualness, but rather in terms of whether fair values can be relied upon to inform investment advice. An interviewee said that s/he does 'not give huge amounts of credence to those [fair value] numbers' (Insurance analyst 1), while another commented on the untrustworthiness of fair values to 'bet the farm on':

> I would be surprised if anybody was really going to bet the farm on an investment based on fair values that are presented to them by the company, even if they were audited or whatever. Just because they, by their nature they are variable and a bit, kind of, random in some cases. (Banks analyst 1)

Our interviewees therefore appear to conceive reliability in terms of whether the information can be trusted to guide investment decisions. They appear to be indifferent to conceptions of reliability in terms of the verifiability of transactions or of values produced by markets (Erb and Pelger 2015, Power 2010). Instead, they are interested in the dependability of fair values for their investment recommendations – an aspect of reliability which is explicitly not taken up in the discussion on faithful representation in the revised conceptual framework (Pelger 2020). Pertinently, the Investment Management Association (IMA) (letter, 2014) wrote to the IASB: 'investors want to trust the information reported and these estimates should be the best in the circumstances in that a certain level of precision is necessary. We do not consider that 'freedom from material error' which is in the definition of 'faithful representation' necessarily captures this'. When discussing issues with faithful representation interviewees raised concerns with the vagueness of accuracy 'because we don't know about the assumptions going behind that ... It's very difficult to figure out if a bank or a company has marked down or marked up. We don't have enough data to cross check that' (Other financials analyst 3). A related concern was with the 'spurious accuracy' of fair values in the sense that although the intention is to faithfully represent current conditions, they are based on highly sensitive assumptions.

> Perhaps they are accurate but, but perhaps too, you know, over-accurate. Often these numbers are very, they're not quite as specific as you might think and, you know, there can be a huge sensitivity to assumptions behind them ... What is accurate could be spurious accuracy. (Other financials analyst 4)

This quote demonstrates how analysts are aware of the inherent subjectivity of fair values. By emphasising the quality of faithful representation they are therefore interested in having values with a certain degree of 'comfortableness', or confidence, to be used in coming up with investment advice. This is reflected in the following conversation:

Interviewer: Do you have the necessary information about assets and liabilities measured at fair value, and how these affect the income statement and equity, to make your decisions?
Interviewee: It's tricky, I mean theoretically, yes. But then it's, again, it's sort of what assumptions are behind those models, for example, and, you know, how much comfort I can get as an investor. (Other financials analyst 4)

Again, the notion of 'dependability' of fair values coming through strongly in the interviewees' testimonies challenges the IASB's conceptualisation of faithful representation. As discussed in the previous sub-section, the usefulness of fair values is contingent on their verifiability by auditors. Analysts see verifiability as being able to re-calculate fair values, which is beyond their control. They are therefore interested in a notion of faithful representation that would offer them dependability for their decision-making regardless of whether they are able to verify the numbers. This can explain why they ranked verifiability as the least important characteristic for fair value numbers. As two interviewees explained:

> Verifiable is probably the one which may be slightly less [important] because you're hoping auditors did their job and, you know, you're not trying to second guess everything that comes out (Insurance analyst 3).

> I don't feel the need to understand precisely the nuts and bolts of how they've gone about valuing it and I certainly don't feel the need to go and do that myself to check that they've done it and think I'm right. (Banks analyst 4)

Analysts therefore consider fair values being verifiable important for auditing but not necessarily so for financial analysis. This again problematises the IASB's preoccupation with satisfying the needs of end users of accounts. Replacing reliability with faithful representation, that sidelines concerns with verifiability, provides fewer limitations for the use of fair values (Erb and Pelger 2015). However, this deprives accounting information of an important quality necessary to be satisfied before this reaches the end users of accounts.

Interviewees also discussed the higher emphasis they place on the concept of comparability over relevance. An interviewee (Banks analyst 3) referred to the example of analysing subprime mortgage-backed securities and explained the process of comparing reported figures to the market index and questioning whether there is a deficit relative to where the index is. This then assists the analyst in forming an opinion on the faithful representation of the fair values reported: 'comparability allows us to look back at faithful representation and say whether they appeared to be held at the right sort of levels' (Banks analyst 3). A connection between comparability and faithful representation was made by another interviewee who said: 'we are comparing the validity of the fair value itself rather than use fair value to compare entities' (Banks analyst 1). The IASB's reasoning that fair value enhances comparability because it is independent of when an asset was acquired was also scrutinised. The

European Federation of Financial Analysts Societies (EFFAS) (letter, 2015) commented that it might be relevant for users to understand that two entities have acquired similar assets at different prices as a lower acquisition price for similar assets reflects better management performance.

It was interesting to discover how some interviewees struggled to rank the six qualitative characteristics, looked confused, and often contradicted themselves when verbalising their thoughts while ranking them. This demonstrates how the intended meaningfulness of decisionusefulness is challenged by analysts. The following excerpt succinctly summarises this confusion:

> I'm struggling to say why these all shouldn't have equal weighting ... I mean what my concern is, what you're saying here about reliable, complete, materially correct, neutral and verifiability are perhaps totally unachievable on a disclosed basis because you can't even argue; well, you can have a huge argument about the essence, you know, the basis. (Banks analyst 5)

In their letters to the IASB analysts questioned the coherence of the revised measurement principles in the conceptual framework and their ability to inform future standard-setting. ABI (letter, 2014), for example, commented that the discussion of measurement in the conceptual framework 'seems to comprise a restatement of the objectives of financial reporting generally which are taken as justifying a number of existing standards' requirements'. Similarly, the CFA Institute (letter, 2014) opined that the discussion justifies existing approaches taken by the IASB and fails to explain the conceptual foundation of the measurement categories developed. This lack of conceptual foundation 'allows the board to develop unique measurements as standards are developed based upon political negotiations'. Concerns that this conceptual ambiguity can lead to preparers selecting measurement bases arbitrarily were raised by the Securities Analysts Association of Japan (SAAJ) (letter, 2015). All commentators suggested that the analysis in the revised conceptual framework is incomplete and that further research and conceptual work is needed in this area.

In summary, our findings question that the qualitative characteristics constitute meaningful elements of the decision-usefulness of fair values. Fair values are not considered particularly useful in predicting future performance. These results are surprising given the importance that standard setters assign to relevance as a qualitative characteristic of decision-useful information.

Analysts also consider that faithful representation and comparability are important attributes fair values should possess in order to render them decision-useful. The emphasis on faithful representation relates to the importance of being able to rely on fair values so that they are considered useful for informing investment advice. This reliance is understood as dependability which problematises the IASB's conceptualisation of faithful representation in the revised conceptual framework.

## 5. Reflection on empirical evidence

Our findings problematise entrenched ideas about the decision-usefulness of fair values found in the IFRS literature. In exploring the question of how decision-usefulness is perceived and experienced by financial analysts when using fair values in their work we discover that three key assumptions inherent in the IASB's revised conceptual framework are challenged. First, our analysts' testimonies show that fair values are not unquestionably useful to decision-making. Contrary to what is envisaged in the conceptual framework, fair values are not accepted without serious qualifications, as they are difficult to interpret, especially in relation to how they affect changes in company performance. Also, measurements based on management intentions are considered decision-useful by analysts. Second, the decision-usefulness of fair values is found to be contingent on the context of the decision being made about a particular entity, something which is largely overlooked in the conceptual framework. Third, the qualitative characteristics assumed by the IASB as necessary to produce decision-useful information are challenged for their lack of meaning and operationalisation. Fair values are not seen as contributing much to forecasting, and faithful representation, in terms of dependability for investment advice, is found to be expedient.

Our findings also lead us to challenge a number of assumptions implicit in academic studies. One such assumption relates to how knowledge can be obtained about decision-usefulness. Our study shows that analysts are not found to perceive and experience, or react to, fair values as capital markets are by empirical quantitative studies. Market movements cannot therefore sufficiently represent financial statement users' views on accounting practices and concepts as assumed by value relevance studies (and endorsed by the IASB). This tells us that the methodology chosen to study decision-usefulness, focusing on how individuals versus on how markets react to accounting information, can provide us with different insights. Thus, in problematisating decision-usefulness, we need to take more care with how we interpret results from studies that investigate how markets in the aggregate behave.

It is often presumed that the decision-usefulness of fair values can be established via deductive reasoning. Our findings indicate that fair values are made useful when used in decisions in relation to specific reporting entities and their particular circumstances. Such decisions, whether economic or non-economic, are inherently diverse and proprietary. In a setting of an analyst analysing one firm, accounting numbers are adjusted in relation to the decision issues at hand and used in combination with a variety of other types of information. In a similar manner to managers (Lorino et al. 2017), the meanings financial statement users make 'of and with' fair values are situated. The decision-usefulness of fair values simply does not exist independently of their use. Fair values therefore become decision-useful when used in financial analysis routines. This implies that any theorisation of decision-usefulness is destined to be an over-simplification of the messy realities of accounting in use.

Our findings therefore challenge hypotheses that the decision-usefulness of fair values can be deduced from either the current conceptual framework (Barth 2014) or from an alternative conceptual framework (Sutton et al. 2015). Our findings suggest that the long-lasting desire for the 'right' measurement concepts is unlikely to be realised. Accounting issues are not amenable to solutions as in natural sciences. This is in direct contrast to Barth's (2014, p. 351) arguments that '... measurement in financial reporting is too fundamental to proceed without concepts. Simply crafting concepts to justify current practice is inappropriate. Concepts need to be just that, concepts. Once the concepts are developed, the next challenge is to follow them'. Our evidence, in fact, points out that there is no such thing as concepts that are 'just concepts' and which can be used to guide detailed rules and practices. Analysts question the coherence of measurement principles in the revised IASB conceptual framework and their potential to inform future standard-setting implying that there is no right or wrong way of deciding which numbers can qualify as good or better accounting measurements to someone's decision. The IASB has spent so much effort on developing its framework but its intended audience does not subscribe to this. It can therefore be argued that the IASB has focused on the internal validity of its framework, but largely overlooked aspects relating to external validity. In yet other terms, it could be that the IASB has become a victim of 'groupthink' in that it may have focused on developing a coherent body of knowledge amid a political process (Pelger 2016), which resulted in a framework that is somewhat detached from what users actually do.

Our problematisation of decision-usefulness as a normative theorisation of users and their needs does not lead to an inference that it can be done better in other ways, such as by using inductive reasoning. The problematisation here is rather that this normativity simply cannot be established, even when informed by empiricism, at least to an extent that would be coherent and acceptable. In other words, our findings reveal that any amount of empirical research into users' needs is unlikely to lead to conceptual coherence on measurement as assumed by analyses such as those by Jonas and Young (1998). Analytical work tells us that normativity in accounting standards is generally impossible since principles are developed at a distance from individual preferences (Demski 1973, Gebhardt et al. 2014). This is shown here empirically: analysts have a pragmatic and situated understanding of decision-usefulness that makes it impossible for it to be theorised prior to practice. Analysts are in fact saying that there is no objective truth which the accounting can reflect via any form of measurement and therefore they would value more meaningful disclosures and more information about management intentions to better inform their own valuations.

Our findings also speak to studies that have already problematised decision-usefulness and especially to the assumption that decision-usefulness can be challenged on its underlying economic rationales. In relation to the analysis by Williams and Ravenscroft (2015), we find that people do not have to be driven by non-economic motives, or behave irrationally (make decisions that do not maximise optimal capital allocations), for decision-usefulness to be incoherent and for analysts to question the usefulness of fair values to their decisions. Instead, our findings demonstrate that analysts can construct the usefulness of accounting in their practices within the parameters of conventional economic theory and still not find fair values as useful as visualised by decision-usefulness theory (and standard setters). We did not find our interviewees unaware of what accounting information is most efficient for their decision models. We also did not find concerns about fair values to be based on failed expectations about what accounting can achieve. A common line of defence by the IASB to the criticism that fair value accounting has played a pivotal role in the deterioration of usefulness of accounting to users is that accounts are not meant to show the value of the entity – see the debate between Lev (2018) and Anderson (2018) and also IASB (2018, para. 1.7). Yet, what we discover here is that analysts are saying that fair value accounting does not necessarily provide them with useful raw data to do their own valuation.

The analysis here implies that soliciting and incorporating users' views in conceptual frameworks will not improve the coherence of a theory of decision-usefulness. Unlike existing studies, this leads us to think problematically about decision-usefulness even if the IASB considered empirical evidence about users and their needs (cf. Young 2006), or even if users were to engage more in standard-setting processes (cf. Durocher et al. 2007, Durocher and Gendron 2011). Bhimani et al. (2019) suggest three theoretical tensions to explain why attempts by the IASB for greater user engagement do not result in their views being considered in developing or revising standards: resisting influence by a single stakeholder, being more informed about what information can benefit users, and wanting to be seen as serving the wider public interest. Our findings here point to a somewhat different challenge for the IASB in producing user-focused standards: users' actual use of accounting problematises the IASB's approach of developing a universal set of principles for setting accounting standards.

Our findings also enable us to reflect on assumptions in studies that have particularly problematised the decision-usefulness of fair values in relation to their market logic. Hitz (2007) argues that the conceptual case for fair value is problematic for items not trading in liquid markets and Barker and Schulte (2017) find that the measurement of non-financial assets in practice is not done in accordance with the requirement of fair value accounting to represent the market perspective. Hayoun (2019) problematises the overarching principle that fair value is a purely market-based value and not an entity-specific value. Our findings here show that users are not so much concerned about such dualisms that usually frame the debate, such as whether accounting values represent an 'entity perspective' or a 'market perspective', as they are more concerned about the dependability of the values for their investment decisions. What is more important for the analyst is to be provided with the least subjective, or more reliable, measure within the particular bounds of analysis. We find that analysts are not concerned about fair values because of 'epistemic commitments' (Durocher and Gendron 2014) but because the usefulness of accounting values is at stake in the analysis process itself. Fair value is therefore as much a conceptual issue as it is an implementation issue and, as we demonstrate here, the paradigmatic assumptions underlying decision-usefulness, and not just the disconnect between users and standard setters (cf. Georgiou 2018), are problematic.

The analysis here leaves us with anintriguing question: canthere bea solution tothe problem we are studying? Our problematisation-driven analysis does notoffer us witha diagnostic tool toget to a resolution of a problematic situation.Achieving a consensus for the problem we are studying such as aligningdecision-usefulnesstheorywithhowusersactuallyuseaccountingisinherentlyproblematic. Such an ambition, as are rationales for evidence-based policy-making, treats the 'problem' as fixed and apolitical. An alternative view is to treat the problem as the outcome of political processes, with the fair value debate demonstrating how accounting lacks essence (Miller and Power 2013) andhowitconstitutes a'siteofdissonance' (Georgiou2018, MennickenandPower 2015)wherediffering evaluations on the general worth of accounting arise among different stakeholders. Seen in these terms, any attempted solution to the problem, such as standardising more meaningful disclosures, will always be a partial solution to a more complex problem (Hoppe 2011). Perhaps the vaguenessandincompletenessofdecision-usefulness(Penno2008)needstobeacknowledgedanddebated by standard setters and their constituents. Or perhaps, a case-based adjudication of accounting issues as they arise may be more appropriate than a universal set of principles (Ball 2016). What comes through our analysis here is that the problem of decision-usefulness is not a disruption to the functional world that can be studied and solved in a detached way, isolated from 'what' or 'who' it is a problem for. Recognising this makes the task of analysis one of clarifying the conditions and situations to which decision-usefulness is a response to.

## 6. Conclusion

Our aim in this paper was to empirically test the paradigm of decision-usefulness that serves as a master metaphor for setting accounting standards. We do this by interviewing a group of financial statement users about how they perceive and experience decision-usefulness when using fair value accounting information in their work and by analysing letters users wrote to the IASB in response to relevant consultation documents. Our interviewees' testimonies challenge a number of assumptions implicit in the IASB conceptual framing. Thus, our first contribution is that we expose the contingencies of an apparently natural way of thinking about accounting. When the decision-usefulness for fair values, a largely unproblematic idea accepted without much questioning, becomes the object of reflection its contestable nature is uncovered.

Our second contribution is to show how decision-usefulness is established in practice and is too messy to be reduced to prior theorisation. The usefulness of fair values is immanent to how analysts work, to how they make sense of and with accounting, and is therefore not an idea to be deduced from theorising prior to the practice of financial analysis. Our third contribution is to demonstrate how financial statement users need not behave contrary to the assumptions of conventional economic theory for decision-usefulness to be challenged. Analysts are not found to be much concerned about issues that dominate the conceptual debate such as whether fair values should represent the market perspective rather than the entity perspective. They rather have more pragmatic concerns such as whether they can depend on these values to inform investment advice and how more meaningful disclosure and more information on management intentions will enable them to work through the numbers presented to them. Thus, a conclusion is that we need to worry more about whether a focus on users, whether imaginary or real, might not be the most sensible way for developing financial reporting policies.

We have just experienced an undoubtedly once-in-a-generation revision of the accounting conceptual framework in which the primary purpose of accounting has not been debated. The revision process has been more about 'twisting words' (Erb and Pelger 2015), misunderstandings by both theIASBanditsstakeholders(Barker2015),theIASBmaking'clumsypatches'(Ball2016,p.557, Pelger2020)toissuesthathavecausedtension,andadiscursiveinterplayofknowledge,rationality, and power (Pelger 2016), rather than about the development of coherent principles with which accounting standards must conform, as the IASB claims (Dennis 2018, 2019). In the current study, decision-usefulness, in whose name all changes in accounting principles and practices are made, is found to be challenged in practice in relation to fair value measurements. Despite continuous efforts to improve the framework, it still remains opaque how it can intersect with particular accounting problems (Bryer 1999, Robson1999) such as the nature of specific decisions in relation to factors such as uncertainty (Barker and Penman 2020). Our findings therefore problematise the unquestioningacceptanceoftheprimarypurposeofaccounting andsuggest thatthisisanissue that merits further attention.

Our study demonstrates how a problematisation-driven analysis provides a useful approach for understanding decision-usefulness as open to re-thinking rather than as a 'fixed' and 'real' purpose of accounting. We want to suggest obtaining empirical evidence from users about their use of accounting information in investment decisions or advice, not with the aim of incorporating that evidence into standards, but with the aim of understanding more about what question is the purpose of financial reporting the answer to; how problems and potential solutions are defined and institutionalised. Our study ultimately points to the importance of probing further into how the unquestioning acceptance of the functional utility of IFRSs is anchored on hegemonic ideas rather than lived experiences (Mantzari et al. 2017, Mantzari and Georgiou 2019), and in how 'the user needs approach' implicated in standard-setting processes (Baudot 2018, Erb and Pelger 2015, Pelger 2016, Pelger and Spieß 2017, Stenka and Jaworska 2019) plays out in the actual use of information in financial analysis processes.

In this study, we explore the perceptions and experiences of an actor whose identity is most closely aligned to that of the made-up user mobilised in standard-setting debates (Stenka and Jaworska 2019, Williams and Ravenscroft 2015) and discover largely consistent views that challenge what is familiar about decision-usefulness. Although we do not claim that there is a single coherent user view about accounting, our focus on analysts working in the financial sector can be seen as a limitation of our study, given the diverse users and uses of accounting information (Cooper and Morgan 2013). Future studies can explore whether other types of financial statement users, operating in different settings, understand the usefulness of accounting issues in similar ways. It would be interesting to explore the views of users distanced from the identity of homo economicus such as those of regulators and employees. It would also be interesting to explore how other stakeholders in standard-setting processes, such as auditors, see their role in contributing to the usefulness of accounting for decision-making. Another idea is to investigate how visions of decision-usefulness affect the calculative practices of preparers of accounts. This would enable a broader problematisation of the objective(s) of financial reporting and its social relevance.

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## Appendices

### Appendix 1. Interview guide

#### Section 1. Demographic information

- What is your role within your organisation?
- What sector / type of security / geographical area do you cover?
- For how many years have you been in this, or a similar, role?
- What are your educational / professional qualifications?

#### Section 2. Sources utilised in decision-making

- What sources of information do you use in your work?
- How do you use financial statements / disclosures in your work?

#### Section 3. Users' experiences with, and perceptions of, fair value reporting

- How do you use fair value information available in primary financial statements and disclosures?
- What would you like to see changed to improve your use of fair value information?
- Do you adjust reported fair values? If yes, how?
- Do you treat the 3 levels of fair value differently? If yes, how?

#### Section 4. Users' views on the decision-usefulness of fair values as defined by the qualitative characteristics of the conceptual framework

- Relevance: How do fair values impact your decisions? Do you use fair values to confirm expectations / make predictions? [Probe responses]
- Faithful representation: Do you have the necessary information about assets and liabilities measured at fair value, as well as fair values' impact to the income statement and equity, to make your decisions? (completeness) Do you think fair values are without a bias? (neutrality) Do you find fair values are calculated appropriately? (free from error) [Probe responses]
- Comparability: Do fair values enable you to compare entities? [Probe responses]
- Verifiability: Do you find fair values are verifiable / would different observers come up with the same value? [Probe responses]
- Timeliness: Is information available early enough? [Probe responses]
- Understandability: Is fair value information clear and concise to you? [Probe responses]

#### Section 5. Users' needs in terms of the qualitative characteristics of the conceptual framework

Imagine you are given the chance to rank characteristics that impact the usefulness of fair value. How would you rank the items below? [Ask respondents to verbalise their thoughts]

1 is most important, 6 is least important

Different characteristics can have the same ranking

Ranking

Understandability

Faithful representation (reliable, complete, materially free from error, neutral)

Comparability

Relevance (information is used to confirm and/or predict)

Timely enough to impact your decision making process; including the use of information in trend analysis

Verifiability

## Appendix 2. Supplementary empirical material.

### Fair values are not unquestionably useful to decision-making

We know it's there [fair values] and we know it's imperfect. But it goes back to my point, I mean, we don't look at the balance sheet too closely. Unfortunately, we are always tied to, in a way to, I suppose looking from the income statement, in saying what comes through, ultimately, is what it's down to. (Banks analyst 5)

What fair value intended to do was to make things clearer, more up to date. It's kind of having issues because it's not working the right way ... In volatile markets one has to perhaps question how useful it [fair value] is because maybe it's doing the opposite of what it intended to do. I think what it intended to do was to make things a little bit more user friendly, make things, you know, not to have the, at the end of the, so every 4 years when you sell an asset you don't get a massive capital gain, you know the gain is kind of accrues over time which makes sense. But I think, you know, at the moment that's not the way it's working or anything. You're just getting too much volatility and that's, that can be harmful for stock prices because you are getting very wild swings in the P&L which, I don't know, it's not a real movement. (Other financials analyst 1)

You are finding that a lot of companies are realising gains so that they can push them through the P&L rather than through the shareholder's equity. The problem with that is that you need to figure out where the realised gains are coming from. (Insurance analyst 1)

When we are looking at the valuation of the assets, we are looking at how they are fair valued ... and try to understand the risks inherent in the valuations presented to us ...It's really not the valuations as such, it's more whether we can have faith in the methodology used to come to those fair values. Because we spend all our day trying to value things, so we know implicitly it's quite easy for two people to come up with a completely different valuation of exactly the same instrument and so we have to understand how much risk there is in banks' balance sheets of, you know, excessively generous valuations for example. (Banks analyst 1)

I think there are way too many numbers and disclosures given. I think the best way would be to give the format of disclosure such that it picks up a lot of information but it does it in a very concise and precise way so it's easy to read. I think that's the problem we face with fair value disclosures it goes on for pages and pages and pages. (Other financials analyst 2)

We think that the objectives and materiality of individual disclosure items are not necessarily clarified in existing principles of disclosure in IFRS Standards, and that the usefulness of individual disclosure items, when taken as a whole, seems not to have been deliberated by the Board. Therefore, there may be a problem that material information will be obscured by a large amount of immaterial information. (The Life Insurance Association of Japan (LIAJ), letter 2017)

What our investors will be asking us is: What is management saying, you know, what are management's views? You know, you don't have to agree with management's views but I think as, as an analyst, investors are always interested to see what management are saying and then they can disagree or, or agree with what they believe. (Other financials analyst 1)

In our opinion, it is key to consider how a particular asset or liability will impact the entity's future cash flows and give more prominence to the business model of the entity in determining the appropriate measurement bases for assets/liabilities. As it currently stands, the instruments characteristics are given too much primacy as compared to the business model ... we consider that the key objective of measurement is to ensure the right measurement in the right situation, or, in other words, that the measurement required for assets/ liabilities conveys the right information to the users of financial statements from the entity's business model viewpoint. (European Investment Bank, Caisse des Dépôts, Cassa Depositi e Prestiti, KfW, letter 2014)

### The decision-usefulness of fair values is contingent on contextual factors

From our perspective as an analyst we have to sometimes make adjustments. So we say: look this is what the reported is but if you adjust for these x, y, z this is what it looks like on our ... which is kind of bizarre because it kind of defeats the purpose of having fair value [in financial reports]. (Other financials analyst 1) Interviewer: Do you make any adjustments for fair value numbers given to you in the financial statements?

Interviewee: Yes, all the time. That's what we do all day. I mean, amongst other adjustments that we'd make for differences in approaches between companies and differences across countries and all the rest. Yes, that's what we do all day. So we would take the figures that were given to us and we would adjust them in all sorts of different ways to make them more representative of the cash flows being generated by the business or more representative of the cash flows that are available for shareholders and to make them more comparable across time periods and across different companies. (Banks analyst 2)

We use industry publications provided by the Bank of England and the FSA [Financial Services Authority] a huge amount. We're very reliant on people like the Bank of England for aggregate data. What is the country's, you know, spread on mortgages? What do bad debts and credit cards look like? (Banks analyst 3)

So it's [my analysis is] going round the edges and trying to figure out what's happening to the markets, what's happening to the industry, what's happening to the competition, and then trying to figure out okay join the dots and come out with the picture or advice. (Other financials analyst 3)

### The meaningfulness of the qualitative characteristics needed for fair values to be decision-useful is challenged

For us timeliness is, is very important. In terms of what we do as the roles of an analyst. Because the market is pretty quick in digesting information and therefore, you know, if you have got, you could have a fair value which is very, could be relevant to the company; it's verified; it's understandable but if it's 3 months late then actually what we can do with it is probably quite limited because the market probably would already picked it up so I would actually rank this as number 1. (Other financials analyst 1)

I think understandability would have to be at the very core, at least. So, it's the first … faithful representation of course is laudable; you can say even essential. (Banks analyst 5)

Fair value is something we would use to analyse historical trends and be aware of future evolution of trends … We wouldn't base our recommendation to say 'buy or sell' based on the use of fair value … It's to confirm expectations rather than make predictions. (Banks analyst 7)

The 2010 CF in QC12 acknowledges that 'perfection is seldom, if ever, achievable'. We believe that this would go some way to addressing the concern over striving for precision and that it should be explained further what is meant by reliability rather than removing the term. In summary, unreliable estimates should not be included in financial statements and 'reliability' should be a separate qualitative characteristic. (Investment Management Association, letter 2014)

Our overarching view here is that much of the discussion and preliminary views set out in this section of the
Discussion Paper are very high level and axiomatic in nature. We would have preferred the Discussion Paper
to be developed further to give more insight into how and why specific types of assets and liabilities should be measured in particular ways. (Standard & Poor's rating services, letter 2014)

Has the IASB correctly identified the factors to consider when selecting a measurement basis? If not, what factors would you consider and why?

The Investment Association considers further research is needed in this area and that the CF, as currently drafted, is largely incomplete. There needs to be clear guidance and principles as to when a particular measurement basis should be selected in a standard. As was the case with the Discussion Paper, the ED bases its discussion on measurement on the objectives of financial reporting and the qualitative characteristics of financial information. What investors really want to know is what management has generated from its operations and the resources allocated to it in the period. (The Investment Association, letter 2015)