

8-2016

In fair value we trust, or not

Joyce TANG

Nick LEONG

PAN, Gary

Singapore Management University, garypan@smu.edu.sg

Keng Kevin OW YONG

Singapore Management University, kevinow Yong@smu.edu.sg

Chu Yeong LIM

Singapore Management University, cylim@smu.edu.sg

See next page for additional authors

Follow this and additional works at: https://ink.library.smu.edu.sg/soa_research

Part of the [Accounting Commons](#), [Asian Studies Commons](#), and the [Finance and Financial Management Commons](#)

Citation

TANG, Joyce; LEONG, Nick; PAN, Gary; OWYONG, Keng Kevin; LIM, Chu Yeong; and NG, Tee Yong Jeffrey. In fair value we trust, or not. (2016). 1-18. Research Collection School Of Accountancy.

Available at: https://ink.library.smu.edu.sg/soa_research/1527

This Report is brought to you for free and open access by the School of Accountancy at Institutional Knowledge at Singapore Management University. It has been accepted for inclusion in Research Collection School Of Accountancy by an authorized administrator of Institutional Knowledge at Singapore Management University. For more information, please email libIR@smu.edu.sg.

Author

Joyce TANG; Nick LEONG; PAN, Gary; Keng Kevin OW YONG; Chu Yeong LIM; and Tee Yong Jeffrey NG

IN FAIR VALUE WE TRUST, OR NOT



CONTENTS

Executive Summary	3
Sample and Research Methodology	4
1. Trust in Financial Statements	4
1.1 Trust in Historical Cost and Fair Value Accounting	4
1.2 Usefulness of Fair Value Estimates across Different Asset Classes	5
1.3 Trust in Fair Value Estimates	5
1.4 Trust in Level 1, Level 2 and Level 3 Fair Value Estimates	6
2. Individual Attributes/Beliefs and Trust in Fair Value Estimates	7
2.1 Individual Attributes and Trust in Fair Value Estimates	7
2.2 Individual Beliefs on Conceptual Framework Characteristics and Trust in Fair Value Estimates	7
3. Perception on Net Benefit of Fair Value Accounting	8
3.1 Fair Value Accounting is Costly	8
3.2 Net Benefits of Fair Value Accounting	8 - 9
4. Audit and Fair Value Accounting	10
4.1 Audit Fees	10
4.2 Audit and Trust in Fair Value Estimates	11
4.3 Auditor Use of Valuation Expert	11
4.4 Audit of Fair Value Estimates across Level 1, Level 2 and Level 3	12
4.5 Choice between Big 4 Auditors or Non-Big 4 Auditors	12 - 13
5. Valuation Process and Trust in Fair Value Estimates	14
5.1 Reliance on Valuation Expert	14 - 15
Conclusion	16
Acknowledgements	16 - 18

EXECUTIVE SUMMARY

The objective of financial reporting is to provide financial information that is useful to existing and potential investors, lenders and other creditors (IASB's Conceptual Framework ED/2015/3). General purpose financial reports provide information about the financial position of a reporting entity, as well as information about the effects of transactions and other events that will change a reporting entity's economic resources and claims (para 1.12 ED/2015/3). Investor confidence and trust in the financial statements is a crucial component for financial markets to function smoothly.

This report presents the attitudes and concerns of over 700 respondents toward fair value accounting.

Overview: The survey shows there is a high level of trust toward financial statements, with higher levels of trust shown in financial statements prepared using a hybrid measurement model of historical cost and fair value accounting vis-à-vis a single measurement basis model (either historical cost or fair value accounting).

More than 75% of the survey respondents perceive fair value accounting to provide useful information for trading securities, available-for-sale securities and real estate; but less than 60% of the respondents perceive fair value accounting to provide useful information for held-to-maturity securities, loans and receivables, property, plant and equipment, biological assets and intangible assets (Figure 3). However, there are lingering concerns toward the reliability of fair value measurements¹. Specifically, 26% of respondents state that they distrust fair value estimates (Figure 4). The survey respondents have low/very low trust in Level 3 fair value estimates (39%) as compared to Level 1 and Level 2 fair value estimates (13% and 23% respectively)² (Figure 5).

Personal Attributes and Trust in Fair Value Estimates: Personal attributes and beliefs in the accounting conceptual framework characteristics may affect our scepticism toward fair value estimates. Respondents who placed a high level of importance on the qualitative characteristics of accounting information as described in the IASB's Conceptual Framework (e.g., relevance and faithful representation), also trusted fair value estimates more than those who placed a low level of importance³.

This finding suggests that there is alignment between qualitative characteristics⁴ of financial statements and perceptions of fair value accounting in financial reporting.

Perceived Cost and Benefit: There is a general consensus among external auditors, accountants, and business valuers that fair value accounting adds cost to the accounting profession. Nonetheless, a majority of the respondents, in particular, analysts/fund managers/institutional investors agree that fair value accounting brings net benefits to the accounting profession and investing community.

Auditing Fair Value Accounting Information: Audit fees are expected to increase if fair value accounting is used in place of historical cost accounting. Respondents indicate that they trust fair value accounting information more when the information is audited. A small majority prefers financial reports that contain fair value estimates to be audited by the Big 4 audit firms, possibly because of their greater resource capacity.

Augmenting Trust: The perceived usefulness and reliability of fair value increase when third party valuation experts are engaged in the valuation process. Third party valuation experts are particularly necessary for valuation exercises that involve higher estimation risks such as Level 3 fair value estimates. Respondents trust third party valuation experts (whether external auditors or other third party specialised valuers) to attest reported fair value estimates more than in-house experts employed within the firm. Third party valuation experts with professional qualifications are particularly well sought after.

¹The exit price of financial and nonfinancial assets and liabilities in an orderly transaction between market participants at the measurement date. This is based on the International Accounting Standards Board's IFRS 13 Fair Value Measurement.

²Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets and inputs other than quoted prices that are observable for the assets or liabilities. Level 3 inputs are unobservable.

³In their Conceptual Framework, the International Accounting Standards Board (IASB) espoused the two fundamental qualitative characteristics are relevance and faithful representation. Comparability, verifiability, timeliness and understandability are regarded as enhancing qualitative characteristics.

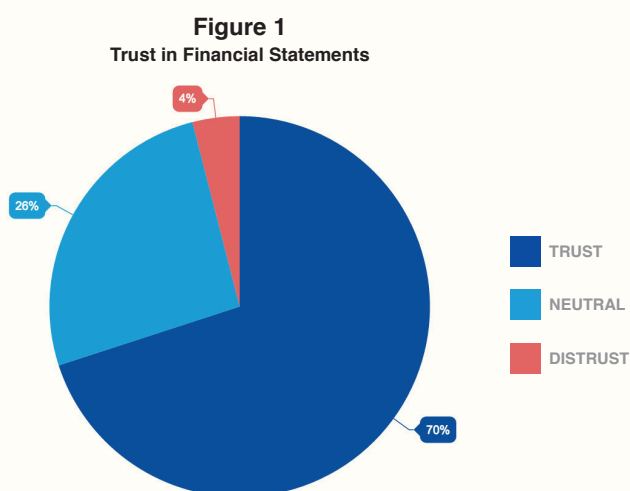
⁴The various qualitative characteristics identify the types of information that are likely to be most useful to financial statement readers for making investing and other decisions from information in a firm's financial report.

SAMPLE AND RESEARCH METHODOLOGY

We collected survey data from 704 individuals via Institute of Singapore Chartered Accountants (ISCA) membership database and Institute of Valuers and Appraisers of Singapore (IVAS)'s contacts through an online survey. Our sample respondents consist mainly of accounting and auditing professionals with in-depth knowledge and industry expertise in fair value measurements.

Out of the 704 respondents, 430 (61%) were accountants (or holding accounting related jobs), 183 (26%) were external auditors, 56 (8%) were analysts, fund managers or professional investors, and 35 (5%) were business valuers. Our survey consists of 35 questions using a 5-point Likert Scale. Most of the survey questions are related to respondents' attitudes and concerns toward fair value accounting.

1. TRUST IN FINANCIAL STATEMENTS



From our sample of respondents who are actively involved in either preparation or attestation of financial statements, we generally find they expressed a high level of trust toward financial statements (70%). 4% of the respondents indicated a distrust toward financial statements, and the remainder (26%) expressed a neutral view with regard to their trust in financial statements (Figure 1).

1.1 - TRUST IN HISTORICAL COST AND FAIR VALUE ACCOUNTING

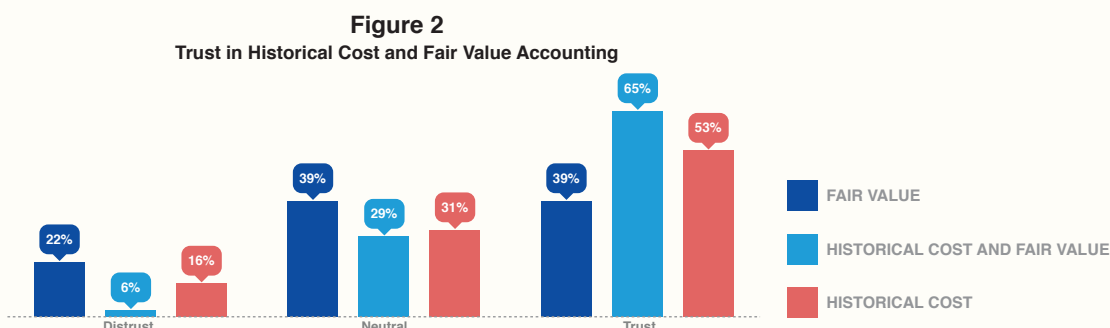
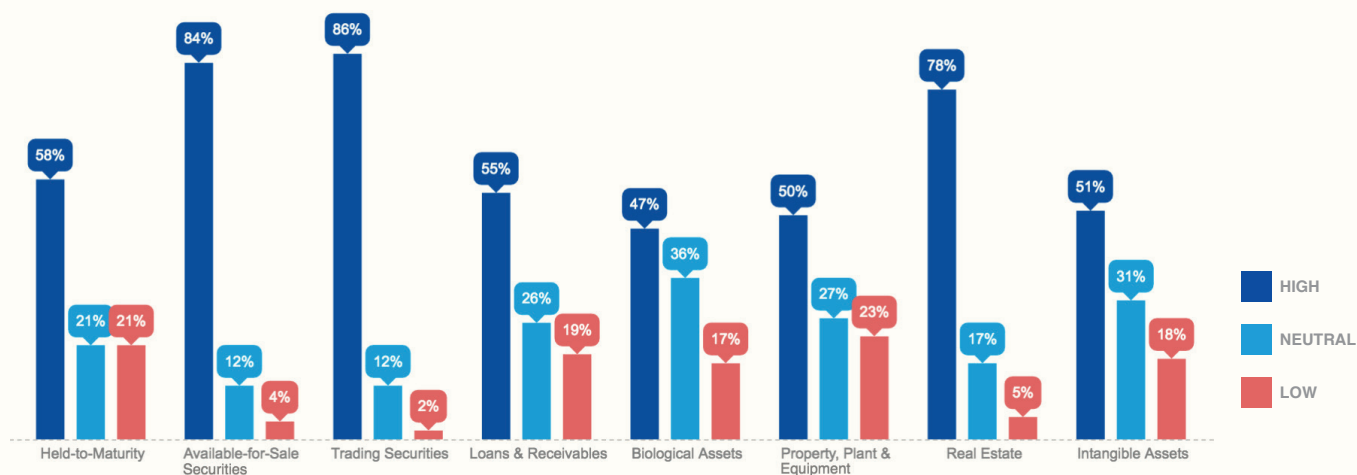


Figure 2 shows the levels of trust across financial statements that are reported using different measurement bases. Financial statements that use both historical cost and fair value accounting garnered the most support from respondents, with 65% expressing a high level of trust. This is followed by financial statements that are primarily based on historical cost accounting (53%). Financial statements that are primarily based on fair value accounting have the lowest level of trust (39%). These results indicate that our survey respondents believe a hybrid measurement model of financial reporting is the best. Additionally, the results suggest that improvements to fair value accounting may help to raise overall confidence.

“Higher level of trust in financial statements using both historical cost and fair value accounting (65%) compared to financial statements using only either historical cost (53%) or fair value (39%) accounting”

1.2 - USEFULNESS OF FAIR VALUE ESTIMATES ACROSS DIFFERENT ASSET CLASSES

Figure 3
Usefulness of Fair Value Estimates of Various Asset Classes for Firm Valuation



Respondents were also asked to rate the usefulness of fair value estimates for different asset classes for firm valuation. Figure 3 shows that fair value estimates of trading securities (86%) has the highest percentage of participants rating it as highly useful, followed by available-for-sale securities (84%) and real estate (78%). A plausible explanation for these results is that these assets are frequently traded in the market, and up-to-date exchange prices between knowledgeable market participants are readily available from active markets, which offer users of financial statements a higher level of trust in these reported figures.

“Fair value estimates for trading securities (86%), available-for-sale securities (84%) and real estate (78%) are rated as highly useful”

On the other hand, asset classes that involve unique assets and a high level of managerial discretion for valuation received the lowest proportion of participants rating these fair value estimates as useful information for firm valuation. Examples of such asset classes are biological assets (47%), property, plant and equipment (50%), and intangible assets (51%).

1.3 - TRUST IN FAIR VALUE ESTIMATES

Figure 4
Trust in Fair Value Estimates

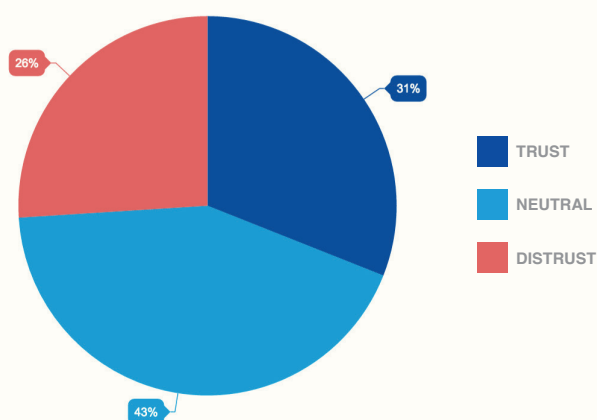
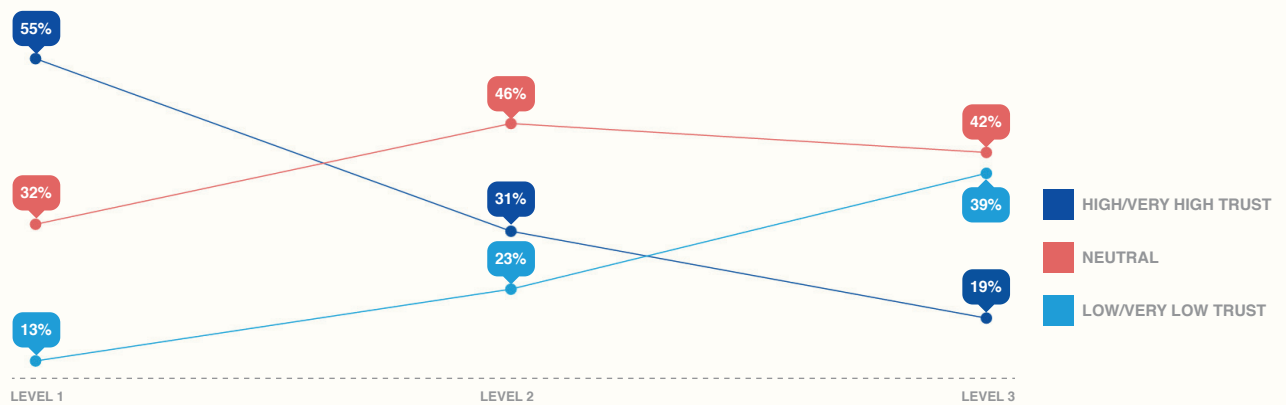


Figure 4 shows that our survey respondents are almost evenly split between those who trust fair value estimates (31%) and those who distrust fair value estimates (26%). A surprising finding is that the majority of respondents (43%) expressed neutrality toward fair value estimates. A possible explanation for this is that respondents still have unaddressed concerns toward the reliability and accuracy of fair value estimates in spite of recent improvements in the disclosure requirements for fair value measurements (e.g., IFRS 13).

1.4 - TRUST IN LEVEL 1, LEVEL 2 AND LEVEL 3 FAIR VALUE ESTIMATES

Figure 5
Trust in Level 1, Level 2 and Level 3 Fair Value Estimates



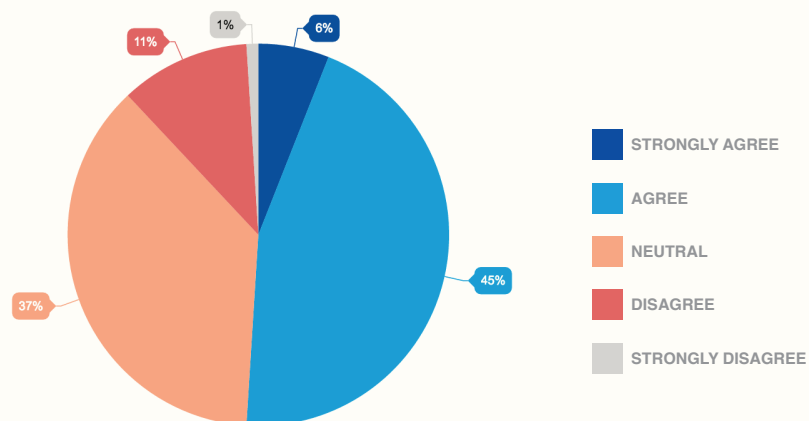
IFRS 13 Fair Value Measurement provides authoritative guidance on how fair value is to be measured. Level 1 fair value estimates are derived from prices and rates that are directly observable in active markets. Level 2 fair value estimates are obtained when the market is inactive and/or the prices of assets can only be derived from other observable market inputs. Level 3 fair value estimates are derived using subjective models and input assumptions.

In Figure 5, the respondents who have low/very low in fair value estimates increased substantially across Level 1 (13%), Level 2 (23%) and Level 3 (39%) respectively. Conversely, the respondents who indicated a high/very high trust in fair value estimates decreased substantially across Level 1 (55%), Level 2 (31%) and Level 3 (19%) respectively.

These results suggest that respondents are more sceptical of fair value estimates when the extent of managerial discretion and subjectivity in fair value inputs increase (i.e., from Level 1 to Level 3). The chart shows that respondents have a much lower level of confidence toward Level 3 fair value estimates relative to Level 1 and Level 2 fair value estimates.

“There is a higher level of trust in Level 1 fair value estimates (derived from prices and rates that are directly observable in active markets) as compared to Level 3 fair value estimates (using subjective models and input assumptions)”

Figure 6
Firms Use Fair Value Accounting to Manage Earnings and Assets/Liabilities



In order to test how much trust respondents have toward reported fair value estimates, respondents were asked to rate on a 5-point Likert scale whether or not they perceive firms will use fair value accounting to manage earnings and assets or liabilities. Figure 6 shows that the majority of the respondents (51%) perceive management might exploit discretion in fair value accounting to manage earnings and assets or liabilities, while only a minority of respondents (12%) does not believe that manipulation of financial statements exists.

2. INDIVIDUAL ATTRIBUTES/BELIEFS AND TRUST IN FAIR VALUE ESTIMATES

2.1 - INDIVIDUAL ATTRIBUTES AND TRUST IN FAIR VALUE ESTIMATES

Various streams of research find that personal characteristics play an essential role in an individual's trust level in fair value accounting. In order to examine the relation between the characteristics of the survey respondents and their trust toward fair value estimates, the survey included questions on personal characteristics such as education, expertise and age. Notable results are as follows:

Education: There is little difference in the level of trust in fair value estimates across educational qualifications. A slightly higher proportion of degree holders (26%) trust fair value estimates than non-degree holders (24%).

Expertise: The level of trust does not show much variation across different types of expertise. External auditors trust fair value estimates the most (34% trust, 19% distrust), followed by analysts/fund managers/professional investors (30% trust, 20% distrust), business valuers (31% trust, 29% distrust), and accountants (30% trust, 29% distrust).

Age: The results indicate that the older the respondent, the higher the likelihood of distrust toward fair value estimates. This is evident as only 16% of respondents (below 30 years old) distrust fair value estimates, followed by 30% of those respondents (aged 31-40 years old), followed by 33% of those respondents (aged 41-50 years old), and finally the oldest age group of above 50 years old (with 36% of respondents in this age group indicating distrust in fair value estimates).

2.2 - INDIVIDUAL BELIEFS ON CONCEPTUAL FRAMEWORK CHARACTERISTICS AND TRUST IN FAIR VALUE ESTIMATES

The IFRS fundamental qualitative characteristics of relevance and faithful representation, along with enhancing qualitative characteristics of comparability, timeliness, verifiability and understandability, are regarded differently among the subgroups of survey respondents. These differing perceptions may affect the levels of trust in fair value estimates among respondents.

The majority (54%) of respondents attribute a high level of importance to all six characteristics, while only 5% of respondents attribute a neutral to low level of importance to these characteristics. Respondents who indicated a higher level of importance toward these characteristics also trusted fair value estimates more than their counterparts who attributed low level of importance (the former with average trust score of 3.2/5.0 versus the latter with average trust score of 2.8/5.0).

This finding suggests that respondents who trust fair value estimates also exhibit a greater belief in the qualitative characteristics as espoused by the IASB's Conceptual Framework such as relevance and faithful representation.

3. PERCEPTION ON NET BENEFIT OF FAIR VALUE ACCOUNTING

3.1 - FAIR VALUE ACCOUNTING IS COSTLY

Figure 7
Fair Value Accounting Adds Cost to the Accounting Profession
 (Monetary e.g. Incremental Valuer Costs and Non-Monetary e.g. Incremental Risks)

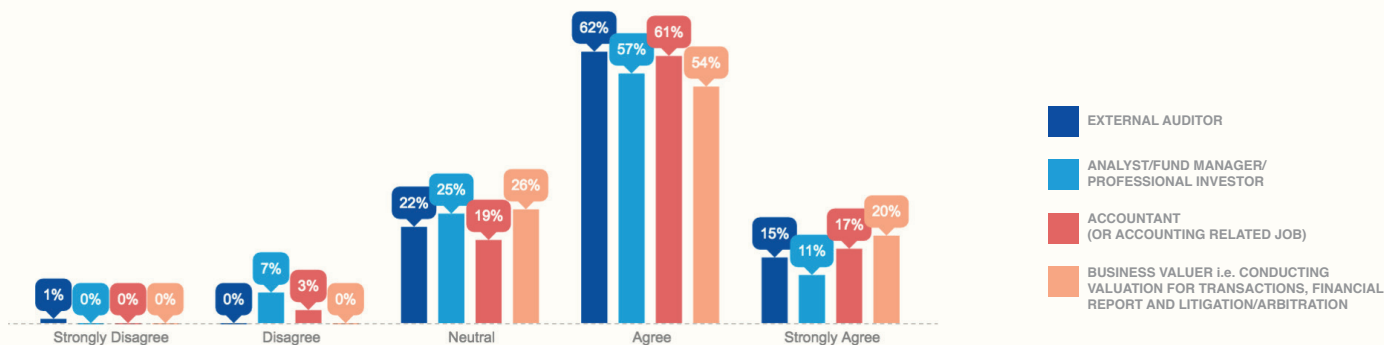
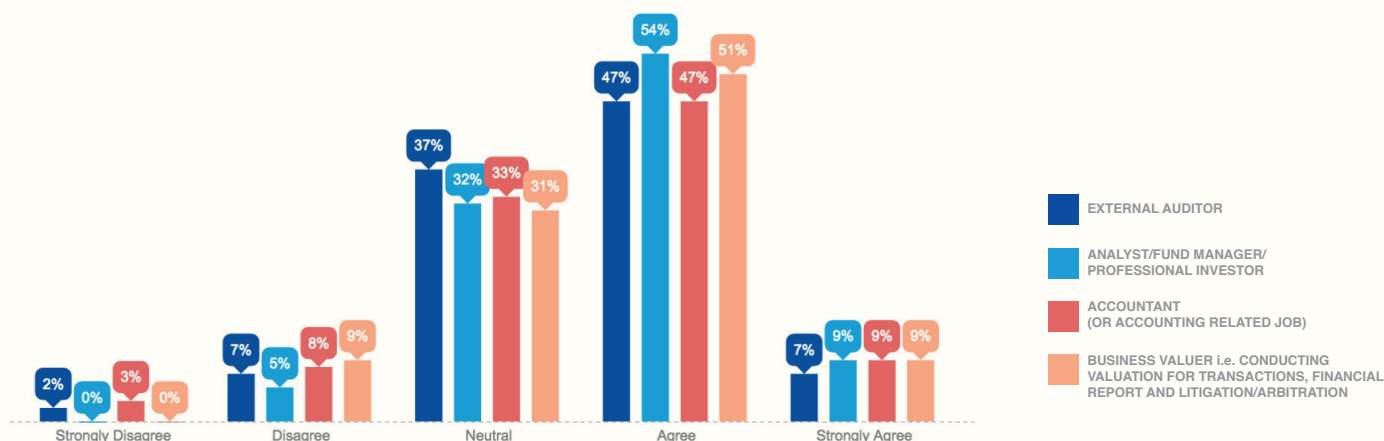


Figure 7 shows a general consensus among external auditors (77%), accountants (78%), and business valuers (74%) that fair value accounting adds cost to the accounting profession. Analysts/fund managers/professional investors have the lowest percentage (68%) among the four groups who believe that fair value accounting adds cost, and the highest percentage (7%) disagreeing that fair value accounting adds cost to the accounting profession.

3.2 - NET BENEFITS OF FAIR VALUE ACCOUNTING

Figure 8
Fair Value Accounting Brings Net Benefit to the Accounting Profession Considering the Monetary and Non-Monetary Benefits and Costs



In Figure 8, we find that analysts/fund managers/professional investors have the highest proportion (63%) of respondents agreeing that fair value accounting brings net benefits to the accounting profession considering monetary and non-monetary benefits and costs. This is followed by business valuers (60%), accountants (56%) and external auditors (54%).

Analysts/fund managers/professional investors also exhibit the lowest percentage (5%) of respondents disagreeing that fair value accounting brings net benefits to the accounting profession. This finding is consistent with the earlier results that preparers of financial statements are more concerned than users with the perceived high cost associated with fair value accounting.

“Amongst the Analyst/Fund Manager/Professional Investor group, almost 2 in 3 respondents (63%) agree that fair value accounting brings net benefits to the accounting profession”

Figure 9
Perceived Net Benefit to Investors and the Accounting Profession⁵

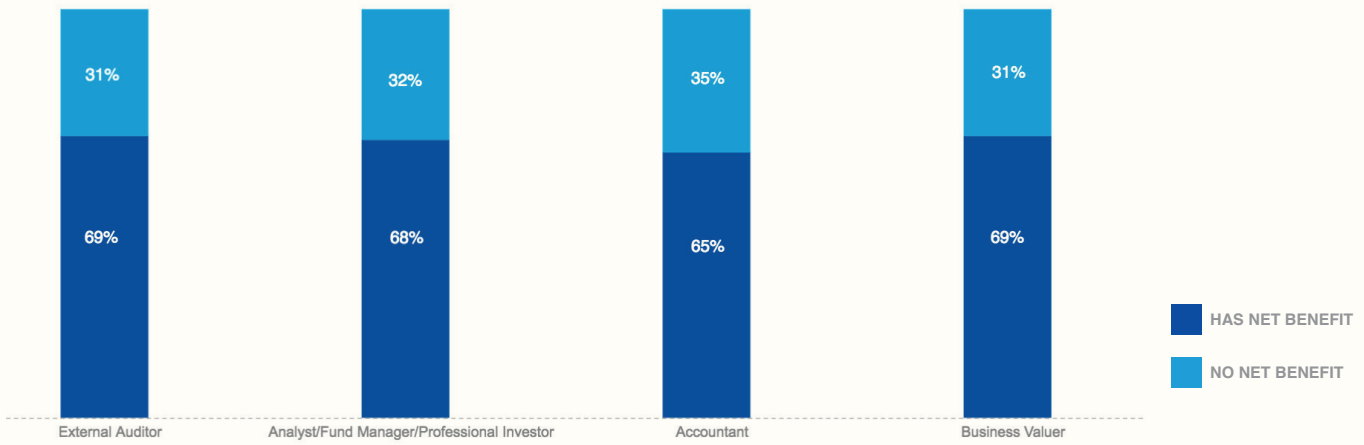


Figure 4 in Section 1.3 shows that only 31% of respondents trust fair value estimates. However, in Figure 9, more than 65% of respondents perceived a net benefit in fair value accounting to either Investors or the Accounting Profession or both. This finding indicates that respondents recognise the usefulness of fair value accounting in investing decisions and other forms of decision making. While they might not fully trust fair value estimates, they are of the view that financial statements that report fair value estimates are beneficial.

Figure 10
Breakdown of Perceived Net Benefit

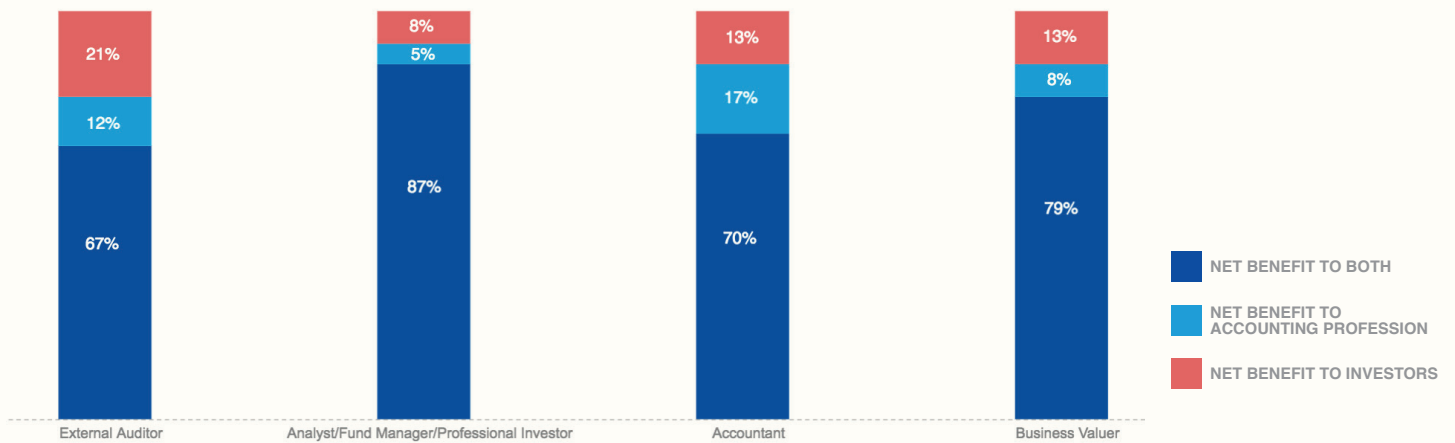


Figure 10 shows a further breakdown of how each group (as shown in Figure 9) perceived fair value accounting to have benefited either Investors or the Accounting Profession or both. An overwhelming 92% of respondents from the Analyst/Fund Managers/Professional Investor group perceive fair value accounting to be highly beneficial to the Accounting Profession. Slightly lower percentages of respondents from external auditors (79%), accountants (87%) and business valuers (87%) perceived fair value accounting as being beneficial to them.

⁵Investors refer to the “Analyst/Fund Manager/Professional Investor” group while Accounting Profession refers to the “External Auditor”, “Accountant” and “Business Valuer” groups.

4. AUDIT AND FAIR VALUE ACCOUNTING

4.1 - AUDIT FEES

In this section, we examine the outcomes of trust in fair value accounting – how trust affects the audit and valuation processes. Based on the responses to the survey by 183 respondents who work as external auditors, we examined the impact of litigation risk and effort required on audit fees. Respondents were given the following scenario and accompanying questions before assessing the relationship.

Scenario: Assume you are the external auditor of Company X. The company was using historical cost accounting to record one class of its assets. Due to a change in accounting standards, the company is going to account for this class of assets using fair value accounting. It is also required to disclose different level of fair value inputs (i.e. fair value hierarchy as in IFRS 13) in the financial statements with respect to these assets.

Figure 11
Extent to Which Audit Fees of Company will Increase Significantly

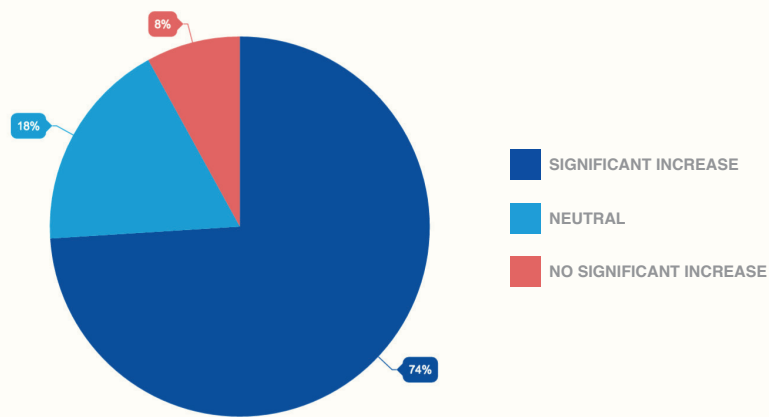


Figure 11 shows that 74% of respondents expressed the view that audit fees will show a significant increase if fair value accounting is used instead of historical cost accounting. 18% remained neutral while 8% indicated no significant increase upon implementation of such a change.

“Among the External Auditor group, 74% of respondents indicated that audit fees will significantly increase if fair value accounting is used”

4.2 - AUDIT AND TRUST IN FAIR VALUE ESTIMATES

Figure 12
Effect of Audit on Level of Trust in Fair Value Estimates (Response from the Analyst/Fund Manager/Professional Investor Group)

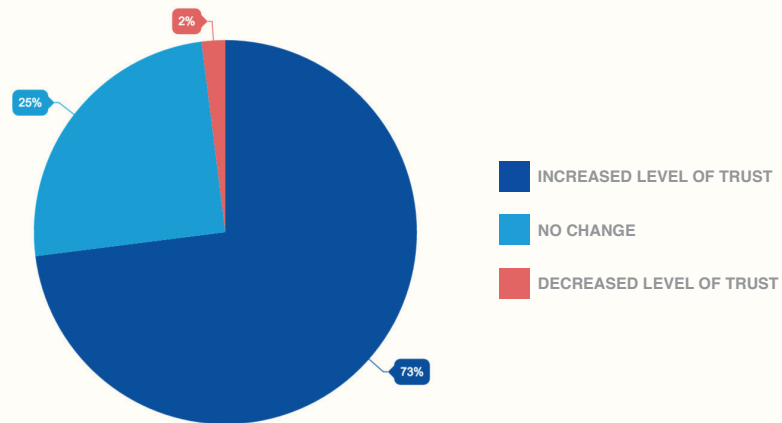
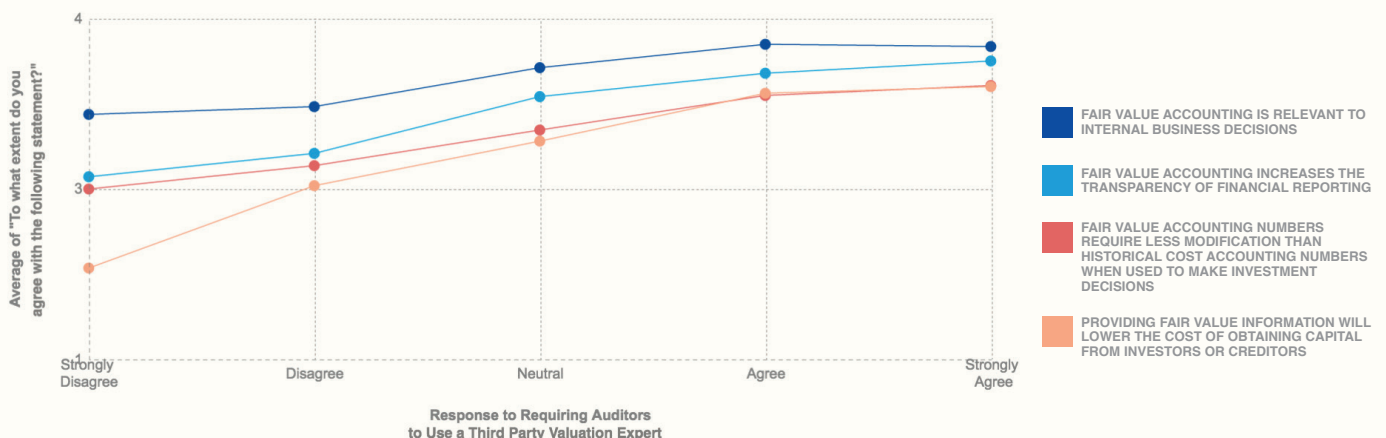


Figure 12 shows that in the Analyst/Fund Manager/Professional Investor user group, 73% of respondents indicated an increased level of trust when fair value estimates are audited. This shows a general trust in auditors affirming the reliability of reported fair value estimates.

“73% of users (Analyst/Fund Manager/Professional Investor) indicated an increased level of trust when fair value estimates are audited”

4.3 - AUDITOR USE OF VALUATION EXPERT

Figure 13
Relationship between Perceived Usefulness and Reliability of Fair Value Estimates and Requiring Auditors to Use a Third Party Valuation Expert



Extant research generally finds that trust facilitates information sharing (e.g. Boss, 1978⁶; Butler, 1999⁷; McEvily, Perrone, and Zaheer, 2003⁸). The use of a third party valuation expert will enhance the auditor’s ability to provide high quality audit service. Figure 13 shows that for the accountant group, there is a direct relationship between the perceived usefulness and reliability of fair value estimates in the auditee and the use of third party valuation experts in audits. Usefulness refers to relevance to internal business decisions, less modification than historical cost accounting numbers when used to make investment decisions and reduction in the cost of obtaining capital from investors or creditors. Reliability, also called verifiability, means that different knowledgeable and independent observers could reach consensus that a particular depiction is a faithful representation.

“Many accountants feel that the use of third party valuation experts in audit will lead to improvements in financial reporting quality, decision-making and a lower cost of capital”

⁶Boss, R. W. “Trust and managerial problem solving revisited” *Group & Organization Management* 3 (1978): 331-342.

⁷Butler, J. K. “Trust expectations, information sharing, climate of trust, and negotiation effectiveness and efficiency” *Group and Organization Management*, 24(1999): 217-238.

⁸McEvily, B., Perrone, V. and A. Zaheer “Trust as an organizing principle” *Organization Science*, 14 (2003): 91-103.

4.4 - AUDIT OF FAIR VALUE ESTIMATES ACROSS LEVEL 1, LEVEL 2 AND LEVEL 3

Figure 14
Need for Audit of Fair Value Estimates across Level 1, Level 2 and Level 3

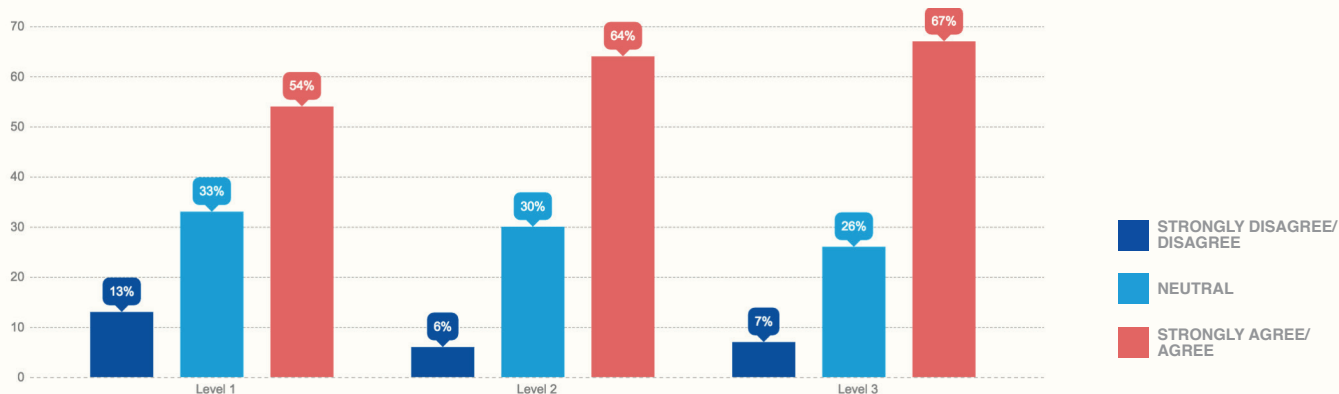
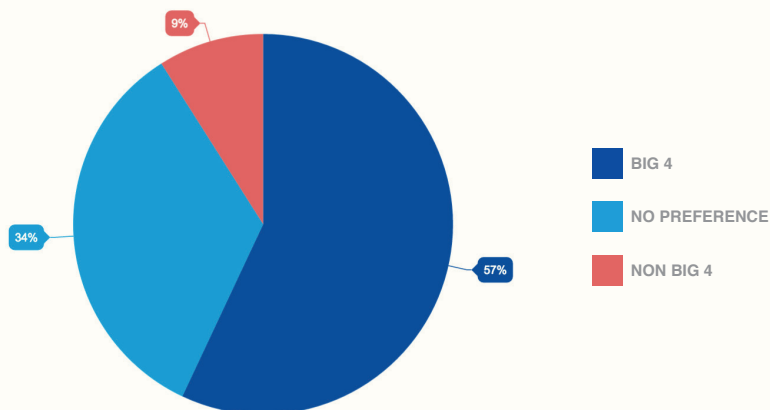


Figure 14 compares the need for auditors to validate fair value estimates across Level 1, Level 2 and Level 3 respectively. 54% of respondents expect auditors to validate Level 1 fair value estimates, followed by 64% of respondents for Level 2 fair value estimates, and the highest number of respondents 67% for Level 3 fair value estimates.

The survey results show a direct relation between the trust in fair value estimates and the need for validation from a third party valuation expert or attester. These findings suggest that there is a greater need for external validation that involve higher estimation risks such as Level 3 fair value estimates.

4.5 - CHOICE BETWEEN BIG 4 AUDITORS OR NON-BIG 4 AUDITORS

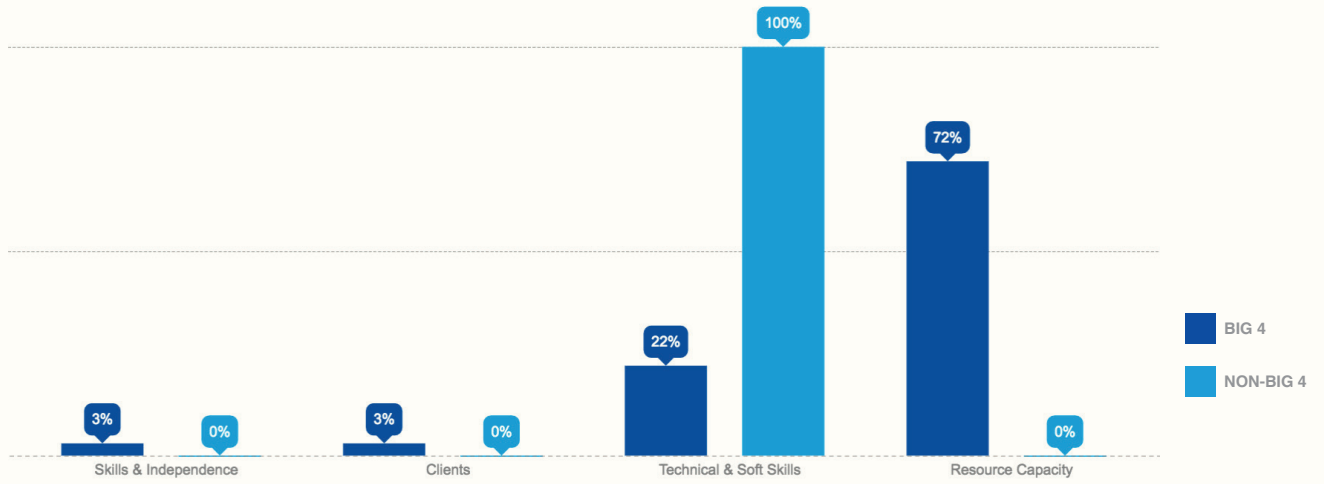
Figure 15
Auditor Type Preference



Prior studies in the US show that large audit firms provide higher audit quality (e.g., Francis and Yu, 2009)⁹. These studies use audit quality measures such as discretionary accruals, going concern opinion, audit fee premium, and financial restatements. Figure 15 shows that 57% of respondents prefer Big 4 audit firms, followed closely by 34% of respondents having no preference, and 9% of respondents who prefer non-Big 4 audit firms. Next, we examine the reasons for the preference of Big 4 audit firms versus non-Big 4 audit firms.

⁹Francis, J.R. and Yu, M.D. "Big 4 Office Size and Audit Quality" *The Accounting Review*: September 2009, Vol. 84(5): 1521-1552.

Figure 16
Reasons for Preference of Auditors



To further investigate the reasons for the preference of auditors, respondents who indicated preference for Big 4 versus non-Big 4 audit firms were asked to provide reasons for their choice.

Figure 16 shows that most respondents who selected Big 4 audit firms over non-Big 4 ones value the “resource capacity” of Big 4 audit firms. On the other hand, respondents who value non-Big 4 audit firms indicated “technical and soft skills” as the main reason for their choice.

5. VALUATION PROCESS AND TRUST IN FAIR VALUE ESTIMATES

5.1 - RELIANCE ON VALUATION EXPERT

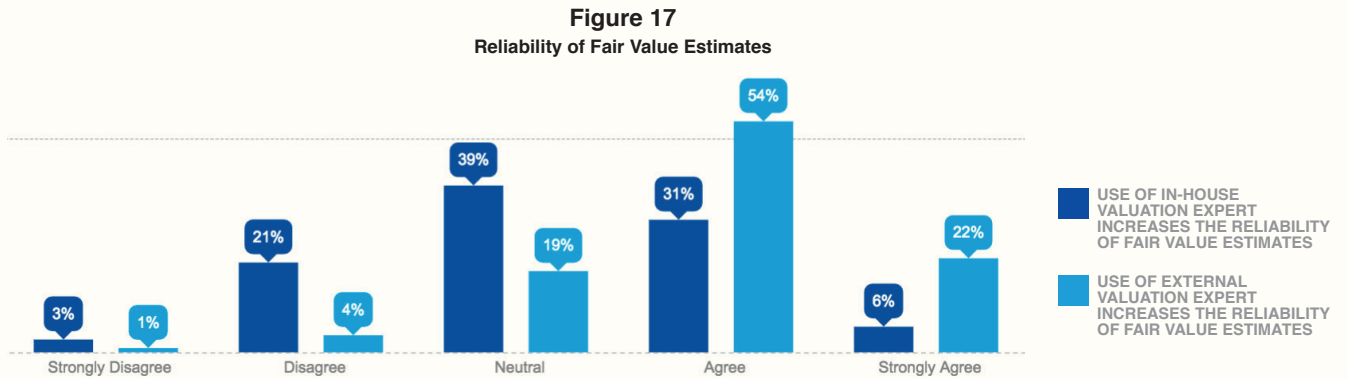


Figure 17 shows that most respondents view external valuation experts as being more reliable compared to valuation experts hired by the firm itself (i.e., in-house valuation experts that report directly to management).

76% of respondents agreed that use of external valuation experts would increase the reliability of fair value estimates. This is twice the 37% of respondents agreeing that in-house valuation experts would increase the reliability of fair value estimates. Moreover, 24% of the respondents disagreed that in-house valuation experts would lead to an increase in the reliability of fair value estimates compared to 5% of respondents who felt the same about external valuation experts.

There are small differences across user groups that agree external/in-house valuation experts would increase the reliability of fair value estimates (external auditors: 80% v.s. 38%; analysts/fund managers/professional investors: 71% v.s. 32%; accountants: 75% v.s. 37%; business valuers: 72% v.s. 37%).

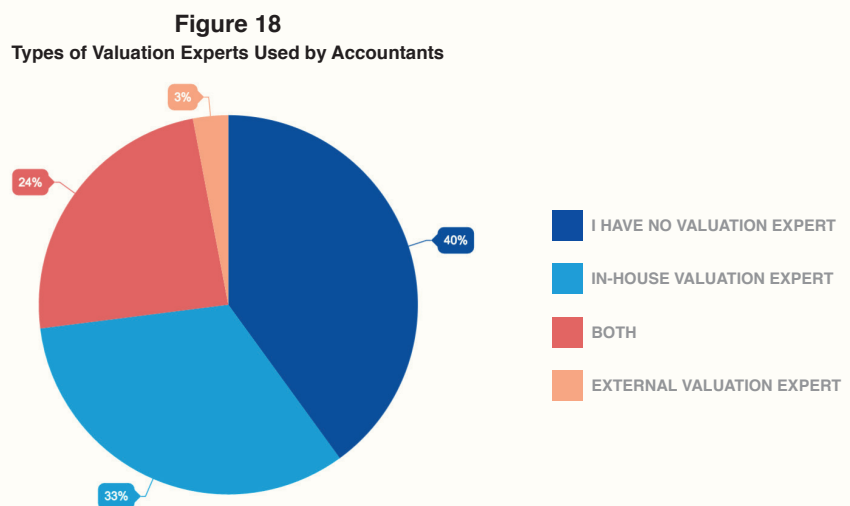


Figure 18 shows that 40% of the auditee firms do not employ in-house valuation experts. 33% of firms use in-house valuation experts only, and 24% use both external and in-house valuation experts. When firms use external valuation experts, they tend to rely on independent third party valuation experts (e.g., Colliers International).

Figure 19A
Qualifications of External Valuation Expert Hired by Firms

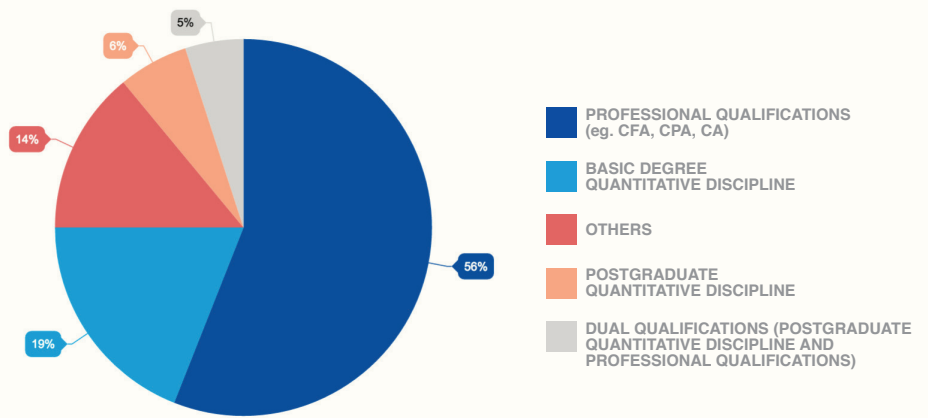
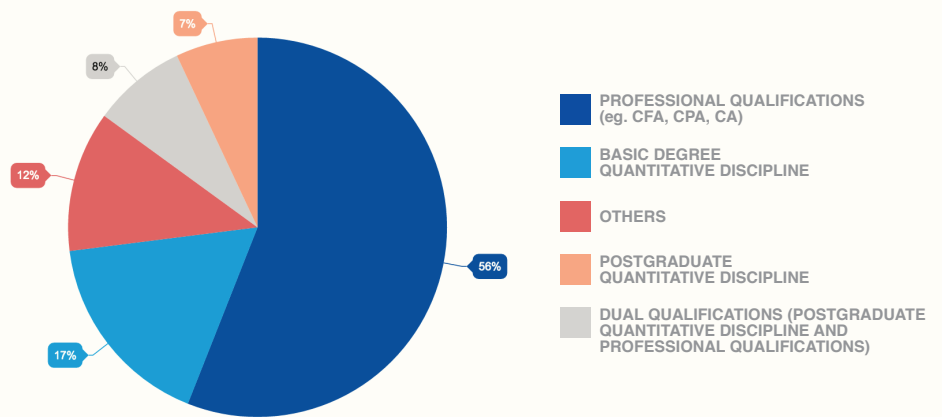


Figure 19B
Qualifications of In-House Valuation Experts



The results in Figures 19A and 19B show that 56% of valuation experts hired by firms hold professional qualifications (e.g. CFA, CPA, CA). For the remaining hires, slightly more than 30% of valuation experts hold degrees in quantitative disciplines. A small percentage of hires (5% of external valuation experts and 8% of in-house valuation experts) holds both professional qualifications and degrees in quantitative disciplines. These results indicate that firms place a higher level of importance on professional qualifications and degrees in a quantitative field for valuation experts.

CONCLUSION

This survey provides evidence that the accounting, auditing and investor communities generally have a high level of trust toward financial statements, particularly when the financial statements are reported based on a hybrid measurement model of historical cost and fair value accounting, rather than a single measurement basis. Additionally, survey respondents have indicated that fair value accounting is more useful for certain classes of assets such as trading securities, available-for-sale securities and real estate compared to other asset classes such as property, plant and equipment, biological assets and intangible assets.

Across different fair value estimates, we find that there is a higher level of trust for Level 1 and Level 2 fair value estimates, as compared to Level 3 fair value estimates. A reason for this finding is the perception that Level 3 fair value estimates require significant discretion and subjective model/input assumptions. We also find that there is variation in the level of trust in fair value estimates depending on the individual's beliefs in the qualitative characteristics of accounting information as espoused in the IASB's Conceptual Framework. We find that respondents who placed a greater level of importance on the qualitative characteristics of accounting information in the IASB's Conceptual Framework also trusted fair value estimates more. This suggests that their views toward fair value accounting are more aligned with the qualitative characteristics of relevance and faithful representation.

Fair value accounting entails costs. The survey respondents generally believe there is an incremental net benefit from reported fair value information. In particular, investors see net benefits in having reported fair value information in the financial statements, while preparers of financial statements and auditing professionals are more concerned with the costs associated with fair value accounting.

Audit fees are expected to be higher with fair value accounting. A large majority of respondents demand greater audit effort for fair value estimates that have greater estimation risk (e.g., Level 3 fair value estimates). Respondents generally feel that auditors can further enhance the usefulness and reliability of reported fair value estimates when they use third party valuation experts. In the use of valuation experts, survey respondents tend to trust third party valuers more than valuers employed in-house by management. We also find that firms tend to hire valuers with professional qualifications and degrees in quantitative disciplines.

ACKNOWLEDGEMENTS

Financial support from MOE Tier 2 grant (MOE2014-T2-2-137) and Singapore Management University Research assistance support from Julia Chow Hui Xin.

ABOUT THE INSTITUTE OF SINGAPORE CHARTERED ACCOUNTANTS

The Institute of Singapore Chartered Accountants (ISCA) is the national accountancy body of Singapore. ISCA's vision is to be a globally recognised professional accountancy body, bringing value to our members, the profession and wider community. There are over 30,000 ISCA members making their stride in businesses across industries in Singapore and around the world.

Established in 1963, ISCA is an advocate of the interests of the profession. Possessing a Global Mindset, with Asian Insights, ISCA leverages its regional expertise, knowledge, and networks with diverse stakeholders to contribute towards Singapore's transformation into a global accountancy hub.

ISCA is the Administrator of the Singapore QP and the Designated Entity to confer the Chartered Accountant of Singapore - CA (Singapore) - designation.

ISCA is an Associate of Chartered Accountants Worldwide - supporting, developing and promoting over 325,000 Chartered Accountants in more than 180 countries around the world.

For more information, please visit www.isca.org.sg.

ABOUT THE INSTITUTE OF VALUERS AND APPRAISERS OF SINGAPORE

Established under the umbrella of the Singapore Accountancy Commission, the Institute of Valuers and Appraisers of Singapore (IVAS) seeks to foster professional excellence in the area of Business Valuation through the development of competency frameworks; promotion of professional valuation standards; setting ethical and professional standards of practice; contributions in thought leadership, research and development; provision of quality education and training curriculum; and a professional qualification and certification in Business Valuation.

Through these initiatives, IVAS seeks to broaden the talent pool and deepen the expertise of business valuers, uphold the public trust in the role they perform, and enhance the reputation of the Business Valuation profession in the region.

For more information, please visit www.ivas.sg.

ABOUT THE SINGAPORE MANAGEMENT UNIVERSITY

A premier university in Asia, the Singapore Management University (SMU) is internationally recognised for its world-class research and distinguished teaching. Established in 2000, SMU's mission is to generate leading-edge research with global impact and produce broad-based, creative and entrepreneurial leaders for the knowledge-based economy. SMU education is known for its highly interactive, collaborative and project-based approach to learning, and for its technologically enabled pedagogy of seminar-style teaching in small class sizes. Home to around 9,300 undergraduate, postgraduate, executive and professional, full- and part-time students, SMU is comprised of six schools: School of Accountancy, Lee Kong Chian School of Business, School of Economics, School of Information Systems, School of Law, and School of Social Sciences. SMU offers a wide range of bachelors', masters' and PhD degree programmes in the disciplinary areas associated with the six schools, as well as in interdisciplinary combinations of these areas.

ABOUT THE SINGAPORE INSTITUTE OF TECHNOLOGY

Singapore Institute of Technology (SIT) is Singapore's new autonomous university of applied learning. SIT upholds the vision of being a leader in innovative learning by integrating learning, industry and community. Its mission is to nurture and develop individuals who build on their interests and talents to impact society in meaningful ways.

SIT offers applied degree programmes targeted at growth sectors of the economy with a unique pedagogy that integrates work and study. SIT's degree programmes feature an eight to 12-month Integrated Work Study Programme (IWSP) which exemplifies the best of university-industry collaboration.

Since its establishment in 2009, SIT has grown from its inaugural batch of 500 students in 10 degree programmes to over 4,000 students in 36 degree programmes from across SIT and 10 overseas university partners. These degree programmes are grouped into five clusters – Engineering (ENG), Chemical Engineering and Food Technology (CEFT), Infocomm Technology (ICT), Health and Social Sciences (HSS), as well as Design and Specialised Businesses (DSB).

SIT also aims to cultivate in its students four distinctive traits, or the SIT-DNA, which will prepare them to be 'thinking tinkerers', who are 'able to learn, unlearn and relearn', be 'catalysts for transformation' and finally, become 'grounded in the community'.

To find out more about SIT, visit singaporetech.edu.sg.

ABOUT THE HONG KONG POLYTECHNIC UNIVERSITY

The Hong Kong Polytechnic University has been ranked 6th in the QS Top 50 2015 in a ranking of the world's top young universities. The university excels in professional education, applied research and partnerships with the industry. The School of Accounting and Finance department is Hong Kong's largest, with the longest history and the largest number of students and alumni. It is the most experienced and sought-after provider of accounting and finance education in Hong Kong. It has top quality research output in accounting and finance backed by strong research infrastructure.

CONTACT

For enquiries regarding this report, please contact:

Institute of Singapore Chartered Accountants

Joyce Tang

Director, Strategy, Global Alliances & Research
Email: joyce.tang@isca.org.sg

Institute of Valuers and Appraisers of Singapore

Nick Leong

Associate Director
Email: nick_leong@sac.gov.sg

Singapore Management University - School of Accountancy

Dr Gary Pan

Associate Professor of Accounting (Education)
Email: garypan@smu.edu.sg

Dr Kevin Ow Yong Keng

Assistant Professor of Accounting
Email: kevinowyong@smu.edu.sg

Singapore Institute of Technology - Design and Specialised Business Cluster

Dr Lim Chu Yeong

Associate Professor
Email: chuyeong.lim@singaporetech.edu.sg

The Hong Kong Polytechnic University - School of Accounting and Finance

Dr Jeffrey Ng Tee Yong

Professor
Email: tee-yong-jeffrey.ng@polyu.edu.hk

Institute of Singapore Chartered Accountants
60 Cecil Street, ISCA House, Singapore 049709
Tel: (65) 6749 8060 Fax: (65) 6749 8061
www.isca.org.sg

Institute of Valuers and Appraisers of Singapore
10 Anson Road, #05-18 International Plaza, Singapore 079903
Tel: (65) 6325 0518 Fax: (65) 6226 3386
www.ivas.sg

Singapore Institute of Technology
10 Dover Drive, Singapore 138683
Tel: (65) 6592 1189 Fax: (65) 6592 1190
www.singaporetech.edu.sg

Singapore Management University
81 Victoria Street, Singapore 188065
Tel: (65) 6828 0100 Fax: (65) 6828 0101
www.smu.edu.sg

The Hong Kong Polytechnic University
Hung Hom, Kowloon, Hong Kong
Tel: (852) 2766 5111
www.polyu.edu.hk