



Greenwich Academic Literature Archive (GALA)
– the University of Greenwich open access repository
<http://gala.gre.ac.uk>

Citation:

[Kluever, Izette \(2012\) The usefulness of fair value: the users' views within the context of the conceptual framework for financial reporting. MRes thesis, University of Greenwich.](#)

Please note that the full text version provided on GALA is the final published version awarded by the university. "I certify that this work has not been accepted in substance for any degree, and is not concurrently being submitted for any degree other than that of (name of research degree) being studied at the University of Greenwich. I also declare that this work is the result of my own investigations except where otherwise identified by references and that I have not plagiarised the work of others".

Kluever, Izette (2012) The usefulness of fair value: the users' views within the context of the conceptual framework for financial reporting. ##thesis type##. ##institution##

Available at: <http://gala.gre.ac.uk/9933/>

Contact: gala@gre.ac.uk

University of Greenwich

**THE USEFULNESS OF FAIR VALUE:
THE USERS' VIEWS WITHIN THE
CONTEXT OF THE CONCEPTUAL
FRAMEWORK FOR FINANCIAL
REPORTING.**

**Izette Kluever
(000634351)**

December 2012

**A thesis submitted in partial fulfilment of
the requirements of the University of
Greenwich for the degree of Masters by
Research in Business.**

DECLARATION

I certify that this work has not been accepted in substance for any degree, and is not concurrently being submitted for any degree, other than that of Masters by Research being studied at the University of Greenwich. I also declare that this work is the result of my own investigations except where otherwise identified by references and that I have not plagiarised the work of others.

Izette Kluever (Student)

Dr Julia Mundy (Supervisor)

December 2012

December 2012

Dated

Dated

ABSTRACT

The International Accounting Standards Board (IASB) defines the objective of financial reporting as the provision of information that is useful for decision making. Fair value is a prominent measurement basis in the financial reports of financial sector organisations. The current research integrates the concepts of fair value and usefulness in order to ascertain the extent to which fair value is deemed useful. The literature tends to group financial reporting stakeholders into distinct groups such as users, preparers and auditors. This thesis focuses on the perspective of the user whom, prior research has shown, is the least responsive when stakeholders are approached concerning accounting matters. NVivo, a qualitative analysis software, is employed to allow the thematic analysis of twenty semi-structured interviews with financial sector analysts. The results of prior studies are confirmed: fair value is more useful than not. While several studies have indicated that usefulness is impacted by certain factors, the contribution of the current study is its investigation into a comprehensive list of factors that impact fair value's usefulness in a systematic and detailed way. A further contribution is this study's extensive use of the Conceptual Framework to measure usefulness. The current study considers analysts' perceptions of fair value's usefulness against the qualitative characteristics of the Conceptual Framework. Issues are identified with modelled fair values' neutrality, accuracy and verifiability. Reported fair values also need to improve in terms of the completeness, understandability and comparability. Fair value under IFRS is deemed both relevant and timely enough to impact decisions. Of the qualitative characteristics, interviewees view faithful representation and comparability as the most important. This should assist standard-setters in prioritising improvements. Finally, this study contributes by allowing users to influence the academic literature through direct quotes. As such, the research bridges the gap between theory and practice.

CONTENT

	Page number
1. INTRODUCTION	8
2. LITERATURE REVIEW	10
2.1 Contextualising the focus on the Conceptual Framework	10
2.2 Research questioning user participation in accounting matters	14
2.3 Empirical research focused on the end-user and fair value information	14
2.4 Other strands of research involving usefulness	16
2.5 The usefulness of fair value according to prior studies	17
2.5.1 <i>Users' use of fair value</i>	18
2.5.2 <i>Users' views on the usefulness of fair value</i>	18
2.5.2.1 Third party verification	19
2.5.2.2 Availability of other information	19
2.5.2.3 Users contribute to usefulness	19
2.5.2.4 Entity-specific factors impact usefulness	20
2.5.2.5 Usefulness is impacted by the market	22
2.5.3 The extent to which users perceive fair value as useful as defined by the IASB's (2010b: QC3) " <i>qualitative characteristics of useful information</i> "	23
2.5.3.1 Faithful representation	24
2.5.3.1.1 Neutrality	25
2.5.3.1.2 Completeness	25
2.5.3.1.3 Accuracy	26
2.5.3.2 Comparability	26
2.5.3.3 Verifiability	26
2.5.3.4 Timeliness	27
2.5.3.5 Understandability	27
2.5.3.6 Relevance	28
2.5.4 Comparison between users' <i>information needs and their perceptions</i> of fair value	28
2.5.5 Summary	28
2.6 The current study's contribution to the field	29
3. METHODOLOGY	31
3.1 Constructivist pragmatism ontology and interpretive epistemology	31
3.2 Applying the "decision-usefulness theory" to the current study	33
3.3 Methods	35
3.3.1 Concepts being researched	35
3.3.2 Population	37
3.3.3 Qualitative methods of data collection and analysis	38
3.3.4 Sampling method and sample size	39
3.3.4.1 Sampling method	39
3.3.4.2 Sampling size	41
3.3.5 Period under investigation	42
3.3.6 The research instrument	42
3.3.6.1 Face validity of the preliminary questionnaire	43

3.3.6.2	Testing the research instrument	43
3.3.6.3	Significant observations and resulting changes following the pilot	44
3.3.6.4	Format of the interview schedule	45
3.3.7	Data collection	55
3.3.8	Ethics	57
3.3.9	Length of interviews	58
3.3.10	Data description	58
3.3.11	Manipulation of primary data prior to analysis	60
3.3.12	Possible limitation in data collection	62
3.3.13	Framework of analysis	63
3.3.13.1	Method of analysis employed in prior studies	64
3.3.13.2	Method of analysis employed in the current study	66
3.3.14	Generation of codes, coding of data and use of codes	67
3.3.15	Limitations of the coding process	70
3.3.16	Reliability and validity of the research process	71
3.3.16.1	Reliability and replication	71
3.3.16.2	Validity of the research	73
4.	DATA FINDINGS AND DATA ANALYSIS	75
4.1	The use of fair value under IFRS	75
4.2	Analysts' views on the usefulness of fair value under IFRS	76
4.2.1	Third party verification	78
4.2.2	Availability of other information	79
4.2.3	Analysts contribute to usefulness	80
4.2.3.1	Analysts need to apply themselves	80
4.2.3.2	Analysts focus on riskier areas	81
4.2.3.3	Analysts have limitations	81
4.2.3.4	Analysts are resourceful	82
4.2.4	Entity-specific factors impact usefulness	83
4.2.4.1	Balance sheet size	83
4.2.4.2	Business intent	84
4.2.4.3	Divulgence of information	84
4.2.4.4	Entity type	85
4.2.4.5	Geographic location	86
4.2.5	Usefulness is impacted by the market	86
4.2.5.1	Liquidity	86
4.2.5.2	Volatility	87
4.2.5.3	Cyclicalities	88
4.2.6	Summary	89
4.3	The extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information"	89
4.3.1	Faithful representation	90
4.3.1.1	Neutrality	90
4.3.1.2	Completeness	91
4.3.1.3	Accuracy	92
4.3.2	Comparability	93
4.3.3	Verifiability	93
4.3.4	Timely enough to be useful	94

4.3.5 Understandability	95
4.3.6 Relevance	96
4.3.7 Summary	97
4.4 Comparing analysts' information needs with their perception of fair value under IFRS	98
4.5 Summary	100
4.6 Limitations of data analysis and findings	101
5. DISCUSSION	104
5.1 Research objective one: Understanding analysts' use of fair value under IFRS	104
5.2 Research objective two: Exploring analysts' views on the usefulness of fair value under IFRS	105
5.3 Research objective three: Assessing the extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information"	106
5.4 Research objective four: Comparing analysts' information needs with their perceptions of fair value under IFRS	108
6. CONCLUSION	110
7. REFERENCE LIST	111

TABLES/FIGURES

		Page number
Figure 1	The decision-usefulness theory	33
Figure 2	Interview questions one – six	46
Figure 3	Interview question seven	48
Figure 4	Interview questions eight – eleven	49
Figure 5	Interview question twelve	51
Figure 6	Interview question thirteen	54
Figure 7	Breakdown of sub-sector and analyst-type	59
Figure 8	Factors impacting the perceived usefulness of fair value	77
Figure 9	Relative importance of qualitative characteristics	99

APPENDICES

		Page number
Appendix A	Interview schedule used in pilot study	122
Appendix B	Final interview schedule	125

1. INTRODUCTION

The current study explores whether users of financial reporting perceive fair value as useful. Fair value is defined as: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” (IASB, 2011b: 11)¹. Fair value has recently received attention from academics, standard-setters and politicians and this attention is fuelled by the financial crisis. Proponents of fair value note how fair value reflects reality and enhances transparency, whilst opponents of fair value criticise the volatility and resulting instability that is caused by fair value reporting (Chasan, 2008; SEC, 2008).

The overall aim of this research is to gauge to what extent end-users of information measured at fair value perceive fair value as useful. Usefulness is measured against the “qualitative characteristics” of the IASB’s (2010b, QC3²) Conceptual Framework for Financial Reporting 2010 (hereafter referred to as the Conceptual Framework).

The specific objectives of the study are to:

1. Understand users’ use of fair value under IFRS
2. Explore users’ views on the usefulness of fair value under IFRS
3. Assess the extent to which users perceive fair value as useful as defined by the IASB’s (2010b: QC3) “qualitative characteristics of useful information” and
4. Compare users’ information needs with their perception of fair value under IFRS.

The focus of this thesis directly addresses a research need expressed by Barth (2006: 15): “Relating specifically to accounting measurement, research can provide insights into whether and the extent to which various measurement bases, in various contexts, meet the qualitative characteristics of accounting information specified in the current Framework”.

¹ This is the new definition for fair value that is based on IFRS 13 (IASB, 2011a: 9).

² It is practice to reference accounting standards by citing the paragraph instead of the page. In the case of the Conceptual Framework, the opening two letters refer to the chapter in the framework. OB relates to chapter one: “The objective of general purpose financial reporting”, QC relates to chapter three: “Qualitative characteristics of useful financial information” (IASB, 2010b: OB1, QC1).

The timing of the study also addresses a research gap noted by Gassen and Schwedler (2010: 507):

“it might be a fruitful avenue for future research to re-investigate the attitudes of professional investors towards alternative financial accounting measurement concepts post 2008/2009.”

Summary of methods, finding and contribution:

The data for the current study were gathered via semi-structured interviews with twenty financial sector analysts and thematically analysed through the use of NVivo, a software analysis tool. The results of prior studies (such as Landsman, 2007; PwC, 2010; SEC, 2008) are confirmed: fair value is more useful than not. Respondents to the current study perceive market values are useful, whilst modelled fair values are generally regarded with cynicism and distrust. Whilst several studies (for example the Chartered Financial Analysts (CFA) Institute, 2009; Gassen & Schwedler, 2010; Landsman, 2007; PwC, 2010; SEC, 2008) have indicated that usefulness is impacted by certain factors, the contribution of the current study is its investigation of a comprehensive list of factors that impact fair value's usefulness in a systematic and detailed way. Another contribution is the current study's extensive use of the Conceptual Framework to measure usefulness and its focus on International Financial Reporting Standards (IFRS). The current study identifies faithful representation and comparability as the two characteristics that are most important to financial sector analysts. The current study further adds to the field by allowing the analysts to contribute to the academic literature through direct quotes. Therefore the current research assists in bridging the gap between theory and practice. The recentness of the primary data is another of the study's strengths. The newness of the information is important because financial instrument reporting is a moving target and recent data will be more informative in terms of encompassing recent changes.

The rest of the thesis will develop as follows: chapter two contains a literature review that contextualises the focus on the Conceptual Framework, usefulness, the user and fair value and considers prior studies that focused on users' perceptions of fair value; chapter three focuses on the methodology; chapter four consists of the data analysis and data findings; chapter five includes a discussion of the results and links with existing literature and chapter six concludes the study.

2. LITERATURE REVIEW

2.1 Contextualising the focus on the Conceptual Framework, usefulness, the user and fair value:

What follows is an explanation of the meaning and use of the Conceptual Framework, the rationale for focusing on the user (and more specifically analysts as a specific user group), the meaning of the term usefulness and the use and meaning of the term fair value in order to better understand the research aim and research objectives.

Listed companies in member states of the European Union are required to follow the international accounting rules for their consolidated financial statements since 2005 (EC, 2002). These standards have also been adopted in numerous countries across the globe (PwC, 2011). The International Accounting Standards Board (IASB) is the international accounting standard-setter (ICAEW, 2008). The financial standards that were issued by the IASB's predecessor are tagged as International Accounting Standards (IASs), whilst the IASB issues International Financial Reporting Standards (IFRSs) (Melville, 2011).

The Conceptual Framework contains the principles underpinning the composition and layout of externally used financial statements and guides the IASB in developing and reviewing accounting standards (IASB, 2010b). The introduction to the Conceptual Framework conveys the IASB's belief that the general needs of most users are met by financial statements that are useful in economic decision making. As such, usefulness is linked to aiding investment decisions. The IASB (2010b: OB2) narrows down this broad user base of "general purpose financial reporting" to "existing and potential investors, lenders and other creditors".

The current study is concerned with the usefulness of reported fair values to analysts. Analysts are the advisors of the IASB's (2010b: OB2) "existing and potential investors". The IASB (2010b, QC32) expects the user to have "a reasonable knowledge of business and economic activities" and to "review and analyse the information diligently". By definition analysts review and analyse information. Véron (2007) ranks the analyst as equally important to the investor. Analyst inclusion in user-based research can be found in

Campbell and Slack (2008; 2011); Gassen and Schwedler (2010) and PwC (2010). Chatham et al. (2010: 100) refer to financial analysts as “the classic user”.

Chapter 3 of the Conceptual Framework introduces qualitative attributes that characterise useful financial information. “Relevance” and “faithful representation” are the primary qualities; whilst “comparability, verifiability, timeliness and understandability” enhance usefulness (IASB, 2010b: QC5 and QC19). The IASB (2010b) defines relevant information as information that could impact decisions. Information remains relevant even if there are users who opt not to utilise it or if the information has been communicated previously by another source. Financial information can impact decisions if it helps to either predict or confirm or both. Faithfully represented data consist of complete and neutral information without errors. The objective is to meet these aims as far as possible, seeing as perfection is a near impossible feat. This error-free state does not mean absolute perfection. Instead the application and description of the process need to be without errors. Comparability is achieved by providing consistent information and enables the user to consider the reporting entity’s data trends and compare the entity with other entities. Verifiability allows different well-informed, unrelated individuals to reach reasonable agreement that a particular item is faithfully presented. Timeliness is a function of the capability to influence decisions. Timeliness and usefulness normally share a direct relation. Finally, the IASB (2010b) defines understandable information as information that is arranged, defined and displayed in a clear and concise manner.

The current study utilises the qualitative characteristics as evaluation criteria to understand to what extent actual users of fair value reporting find fair value useful. The proposed interaction with the standard-setter’s criteria matches Barth et al.’s (2001) observation: the Framework³ communicates the standard-setter’s benchmark to evaluate accounting data; as such research only needs to utilise and not set the measures. The current research will not only utilise the standard-setter’s benchmark, but also investigate the users’ own views on usefulness.

³ Barth et al. (2001) refer to the Framework used in US Generally Accepted Accounting Practice (US GAAP). The current research utilises Barth et al.’s principle (that the standard-setter’s accounting framework can be used as benchmark to evaluate accounting data) when using the Conceptual Framework under International Generally Accepted Accounting Practice. The Conceptual Framework is used as benchmark to measure the usefulness of fair value.

The current research will consider the usefulness of fair value across the spectrum of methods that are available to companies to communicate their results. The usefulness concept is contextualised by the IASB (2010b: OB2, BC1.18) in terms of “general purpose financial reporting”. This type of financial report is linked to the communication of assets, liabilities and equity as well as changes to these in answer to “common information” needs. The IASB (2010b: QC3) broadly links the “qualitative characteristics of useful financial information” to both “financial statements” and “financial information” communicated in alternative ways. In order for the IASB’s criteria of usefulness to be applicable to the current study; usefulness will be considered within an area where the international standard-setter’s financial accounting rules apply. Information is prepared under the IASB’s rules if the standard-setter’s promulgated rules and principles are followed in arriving at the numbers and information is disclosed as prescribed by the international standard-setter. Companies apply the same measurement methods and policies across annual, interim and quarterly statements; albeit with varying degrees of disclosure. When thinking about press releases that relate to financial numbers, companies utilise the same general principles, which apply to quarterly and annual results, in arriving at the numbers that are released to the press. The consistency in application is confirmed when listed companies note that they have used similar policies in their annual financial statements, interim results and quarterly management statements (for example: Barclays, 2012; HSBC, 2011; RBS, 2011). Another example of general consistency can be found in the media release of a typical financial sector entity, Julius Baer (2012a). In this release the company shows selected values. The total asset and equity figures in the media release tie back to the official half year results. The half year results mention that the accounting policies that were applicable to the prior full year results were applied to the half year being reported. The full year results confirm that IFRS rules were followed in compiling the consolidated financial statements (Julius Baer, 2011, 2012a, 2012b). For the purpose of the current research, financial information that is prepared in line with the IASB’s rules will be classified as “reported under IFRS”. The term IFRS is used to indicate the International Generally Accepted Accounting Practice and includes both the recent IFRSs and older IASs that are still in use.

Fair value is one of a number of measurement bases through which monetary values are allocated to elements (assets, liabilities, income, expenses, equity) within the financial reports (IASB, 2010b). Cairns (2006: 10) notes that both active and illiquid markets are

included in the definition of fair value. He uses the primary definition of fair value (amounts at which unrelated parties would be willing to exchange assets and liabilities) to deduce that value in use and the discounted value of future cash flows (present value) could approximate fair value if market participants were to consider these aspects in their valuation. When prices are observable in the market place, fair value reflects the observable price that can be achieved in an arm's length transaction (IASB, 2011a). However, when prices are not observable the fair value is established via the use of models with maximum use of observable inputs (IASB, 2011a). Gassen and Scwhedler (2010: 505) refer to the first scenario as "mark-to-market" and the latter as "mark-to-model". IFRS 13 establishes a "fair value hierarchy" to measure the transparency of inputs (IASB, 2011a: 72). In this hierarchy there are three levels of input. An entity needs to disclose to what level(s) their instruments belong. Level one would relate to instruments with quoted prices such as exchange traded instruments. Level two would relate to instruments which do not fall within category one, but have observable inputs. For example instruments that are traded over the counter or priced based on similar, actively traded instruments with quoted prices. Level three instruments relate to instruments that are modelled and at least one significant input to these instruments is not observable.

The current research proposes to integrate the concepts of fair value and usefulness in order to ascertain to what extent analysts perceive fair value, reported under IFRS, to be useful. This research will focus on the usefulness of fair value within the financial industry. The choice is justified by the extensive use of fair value when accounting for financial instruments (accounting standards include IFRS7, IFRS 9, IAS 32 and IAS39 (IASB, 2011b, 2011c, 2011d, 2011e)) and the research trend to marry fair value and the financial industry or financial sector related products (for example Koonce et al., 2011; Landsman, 2007; PwC, 2010; SEC, 2008).

2.2 Research questioning user participation in accounting matters

The current study's focus on the user is validated by prior research. Young (2006: 596) criticises the US standard-setter⁴ who bases accounting standards on a "hypothetical" rather than an "actual" user. Closely related to Young's hypothetical user is the AFG and FFSA's (2007) comment that standard-setters bear criticism for neglecting investors' views. PwC (2010: 4) underpins this idea when noting that comment letters to standard setting bodies are heavily weighted towards "accounting firms, preparers, trade groups and academics" as opposed to the end-user. Chatham et al. (2010) describe how only four out of 168 commenters to the IASC's paper on Accounting for Financial Assets and Financial Liabilities were users as opposed to preparers, regulators, auditors or standard-setters. The current study's focus on end-users is validated by the identified gap in users' contributions concerning accounting matters. However, Durocher and Gendron (2010) find that even if the user is considered, these users tend to preserve ideals. Durocher and Gendron apply Douglas's (1966, cited in Durocher and Gendron, 2010) theory about purity and Foucault's (1975: 159, cited in Durocher and Gendron, 2010: 7) theory about "docile" actors to interviews that were conducted shortly after the adoption of IFRS in Europe. Durocher and Gendron (2010: 1) argue that well-informed users identify issues with comparability under IFRS. However, these users want to preserve the "ideal of comparability" and, in an attempt to preserve the ideal, they find excuses for the limitations in accounting. Durocher and Gendron's findings serve as a reminder that results should not be accepted at face value. Instead, an interpretative and critical approach is warranted.

2.3 Empirical research focused on the end-user and fair value information

Research that has taken the end-user's view on fair value into consideration includes the CFA Institute (2009), Chatham et al. (2010), Gassen and Schwedler (2010), Papa and Peters (2011), PwC (2010) and the SEC (2008). The CFA Institute (2009) gathered

⁴ The Financial Accounting Standards Board (FASB) and the IASB are working on converging Generally Accepted Accounting Principles in the United States (US GAAP) and IFRSs (Hoogervorst & Seidman, 2012). The Conceptual Framework was the result of a joint project between the FASB and the IASB (FASB, 2010) and this framework places a prominent focus on the user of financial statements. The combined efforts of the FASB and the IASB and the bodies' focus on users make Young's (2006) paper, which was mainly directed at the FASB, relevant to the current paper, which is focused on the IASB.

members' views concerning IFRS 9, an accounting standard on the recognition and measurement of financial instruments. The institute was also interested in members' views regarding the use of fair value across assets and liabilities. Chatham et al. (2010) consider different stakeholders' support towards fair value and these stakeholders' arguments to substantiate their support or lack thereof. Gassen and Schwedler (2010) research investors' and their advisors' views concerning the decision usefulness of various measurement methods, of which fair value is one. Papa and Peters (2011) focus on users' perceptions concerning financial instrument risk disclosures under IFRS7. IFRS 7⁵ is an accounting standard that requires entities to disclose the relative importance of their financial instruments as well as the risks associated with holding these instruments (IASB, 2011d). PwC (2010) explores investors' and analysts' use of financial instrument⁶ information, their views on this information as well as their need for changes. The SEC (2008) investigates users' perspectives concerning fair value. The SEC study is a direct result of the credit crisis and considers whether fair value accounting is useful.

The CFA Institute (2009) surveyed their members. More than 600 responses were gathered of which 48% were either research analysts⁷ or portfolio managers. Chatham et al. (2010) utilised secondary data in the form of comment letters to the IASC's discussion paper: Accounting for Financial Assets and Financial Liabilities. These letters were subjected to content analysis. In fact, Chatham et al. (2010) is an example of prior research that utilised the characteristics of useful information to analyse their data. They utilised the qualitative characteristics of the 1998 Conceptual Framework as codes to understand why different stakeholders agree or disapprove of the fair valuation of all financial instruments. Gassen and Schwedler (2010: 498) collected data from fund managers, rating experts, financial analysts and institutional investors via an online survey in an attempt to gather the views of "professional investors and their advisors". Papa and Peters' (2011) survey

⁵ IFRS 7 and the Papa and Peters (2011) study consider disclosures for financial instruments as opposed to fair value per se. However, the prominence of fair value in these disclosures makes their study relevant to the current research.

⁶ Fair value accounting is a prominent measure when accounting for financial instruments. This was argued from the accounting standards and literature in section 2.1. Therefore the PwC (2010) study, with its focus on financial instruments, is relevant to the current study that focuses on fair value.

⁷ The CFA Institute (2009: 17) also included "corporate financial analyst(s)" in their study. However, it is uncertain whether all of these respondents analyse external financial statements in their decision making process or whether they bear the title analyst within their corporate role. Therefore, the current study only focuses on the responses from research analysts and portfolio managers in an attempt to keep the user-focus.

was administered to CFA members⁸ and 50 sell-side analysts who served as a control group. PwC (2010) conducted semi-structured, cross-sectional interviews with buy-side, sell-side and credit-rating investors and analysts in the banking, insurance and generalist sectors. The SEC (2008: 140) obtained primary data via comment letters on fair value accounting from investors, analysts, credit-rating agencies “and other users” and supplemented this with analysts’ reports on fair value. They also partook in roundtable discussions with “investors, issuers, auditors, academics, former regulators and others with experience in financial institutions’ fair value accounting practices” (SEC, 2008: 146)⁹.

2.4 Other strands of research involving usefulness

In contrast to the studies that considered the actual user; two other strands of research are concerned with aspects of usefulness. These include “value relevance” (Landsman, 2007: 22) studies¹⁰ and experimental studies¹¹. These studies do not consult the individual user but utilise artificial constructs of reality and market indicators as proxies for actual users’ perceptions. They are therefore considered as peripheral and will not be reviewed as part of the current research.

⁸ The CFA members who participated in Papa and Peters’ (2011: Appendix I) study are chosen for their expertise in accounting and/or use of financial statements. Because there is uncertainty regarding the members’ end-user status, the current study only includes views attributed to the sell-side analyst control group as well as excerpts specifically attributed to end-users.

⁹ Even though the SEC (2008: A24) indicates which views belong to “individual investors and other users, investor groups, investor protection agencies, and attorneys representing users”; as opposed to members of congress, academics, preparers, standard-setters, consultants, professional organisations or auditors, and only views specifically allocated to the above defined user group are used in the current study, there is a limitation in this approach. This is because the SEC’s categorisation was not necessarily correct or as stringent as the categorisation used in the current study. For example, the SEC allocates the CFA Institute’s comment letters to the user category. However, not all of the CFA Institute’s members are end-users. The SEC staff could have used the part of the CFA Institute’s letter that relates to users only or they could have made a holistic decision based on the general membership and the large representation of end-users within the CFA Institute’s membership. Due to pragmatic considerations, the current study utilises the SEC’s attribution with the caveat that the SEC’s categorisation was not verified for accuracy or reasonability.

¹⁰ Landsman (2007: 20) provides an overview of the existing “capital market” research that considered the “usefulness of fair value accounting information to investors”.

¹¹ Koonce et al. (2011) is an example of experimental research that uses MBA students as proxy for the actual investor.

2.5 The usefulness of fair value according to prior studies

The results of empirical studies that consider the end-user are mixed. Durocher and Gendron's (2010) claim to a complacent user-base takes shape in a string of answers that convey partial satisfaction with fair value. The SEC's (2008) unstructured methods of data collection and reporting make it difficult, if not impossible, to review the body of answers and conclude a general consensus from the data. A general consensus can be drawn from Gassen and Schwedler's (2010) survey answers, but the information is devoid of depth. Chatham et al.'s (2010) content analysis is very detailed. However, only four of the commenters¹² were users and as such the research is fairly meaningless in terms of conveying the end-user's view. Chatham et al. (2010) also chose to group analysts, regulators and standard-setters from the second question onwards; this means the users' views cannot be distinguished from those of other stakeholders.

Both the PwC (2010) and SEC (2008) studies reflect that fair value is more useful than not. However, this usefulness seems to be tied to various factors. Gassen and Schwedler's (2010) respondents generally agree decision usefulness for fair valued assets that are derived from market prices. Users tend to rank modelled fair values as least useful. The one exception is financial assets where modelled fair values are more informative than historic cost. Both Chatham et al.'s¹³ (2010) and the CFA Institute's (2009) results align closely with those of Gassen and Schwedler in the sense that users show a definite support for the fair valuing of financial instruments.

What follows is a review of the prior studies' findings in light of the current study's objectives. Hence, the data will be considered in terms of users' use of fair value, their views on the usefulness of fair value and the extent to which users perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information". Comparisons will also be made between analysts' information needs and their perceptions of fair value. It should be noted that the aim of the reviewed studies was not a detailed understanding of the usefulness of fair value to the end-user through the utilisation of the Conceptual Framework as measurement tool. The reviewed studies'

¹² The term "commenter" is used to refer to a person or group commenting via a comment letter.

¹³ This is the only one of Chatham et al.'s (2010) conclusions that is user-specific. The other results are based on a combination of analysts, regulators and standard-setters. As such, the other findings of the Chatham et al. (2010) paper will not be considered in the current literature review.

concern with fair value led to each study contributing towards the current study's research objectives in part. However, the richness of the data that is available to answer each of the current study's research questions is varied and different studies tend to focus on different aspects of fair value. This serves as proof that the current study, which is concerned with a comprehensive understanding of the usefulness of fair value and the analysis of said usefulness in a single dissertation, contributes to the current literature.

2.5.1 Users' use of fair value

The existing literature considering the end-user indicates that users use fair value and this use varies. However, PwC (2010: 5) notes how fair value is not the main consideration when analysts and investors analyse an entity. Uses of fair value include forming "views on an entity's liquidity or capital adequacy" and calculating "enterprise valuation". Many respondents to the PwC (2010: 7) study refer to large fair value shifts as "risk indicators" and only a few respondents would use fair valued instruments in their cash flow projections. Linking to this idea of risk indicators, Papa and Peters (2011) note how 90% of the 50 surveyed sell-side analysts use IFRS 7 risk disclosures. These analysts use the disclosures as model inputs and/or to qualitatively consider the risks facing the company. The SEC (2008), based on an analysis of analysts' reports, noted additional uses for fair value: fair values are used to compare entities' valuations and then speculate on differences and in limited instances fair valuations are used to support investment recommendations in analysts' reports.

In summary, prior studies clearly indicate that fair value is used by the end-user. Therefore, applying the Conceptual Framework's objective for financial reporting, financial information needs to be "useful in making economic decisions" (IASB, 2010b: Introduction), the utilisation of fair value (in economic decisions or in advice that feeds economic decisions) renders it useful.

2.5.2 Users' views on the usefulness of fair value

An amalgamation of the results of prior studies give the impression that users' perceptions of fair value are impacted by various factors. Firstly, third party verification impacts the

usefulness of fair value. Secondly, fair value in financial statements is used in combination with other information. Thirdly, users contribute to the usefulness of fair value. Fourthly entity-specific factors such as the business intent, the type of instrument being invested in and the type of entity play a role in fair value's usefulness. Lastly, the market impacts the usefulness of fair value through its liquidity, volatility and cyclicalities. What follows is a closer look at each of the factors that impacts fair value.

2.5.2.1 Third party verification

A respondent to Papa and Peters' (2011) study notes the importance of auditing IFRS 7 disclosures to ensure the quality of information. Therefore it is deduced that fair value is more useful if it is audited by an independent third party.

2.5.2.2 Availability of other information

PwC (2010) highlights the fact that users are not only dependent on the accounting records for information on financial instruments. In fact, other sources such as discussion and analysis by management, analysts' reports and market-based information are also used to inform users. Linking to this study's focus on fair value, it is found that fair value in financial statements is useful, but its usefulness is dependent on other information being available to allow a holistic analysis.

2.5.2.3 Users contribute to usefulness

In terms of users' impact on fair values, a commenter to the SEC (2008: 142) noted how investors should apply "diligence" when analysing fair values. This implies that the usefulness of reported fair values is not only dependent on what is reported but how the reported information is used.

The PwC (2010) study also notes how users are prompted by risk indicators (such as large decreases in fair values) to further investigate the possibility of impairment¹⁴. This implies that users' use is driven by their own agenda and that they will perceive the availability of certain information as useful depending on whether or not they wish to focus on it.

In summary, both users' diligence and analysis focus impact how useful they perceive the fair value information to be.

2.5.2.4 Entity-specific factors impact usefulness

The first entity-specific factor that impacts usefulness is business intent. This takes shape when the majority of PwC's (2010) respondents choose fair value as balance sheet measure for instruments, such as traded instruments, that will probably be sold or settled in the near future. On the other hand, fair value disclosures (as opposed to values impacting the balance sheet) are deemed more appropriate for instruments that have longer expected lives. PwC (2010: 12) gives the example of "loans held for the long term, deposits" and "an entity's own debt". To summarise this paragraph: fair value is useful if it is the entity's intent to trade or settle the instrument in the short term. However, fair value is less useful if the entity intends to hold the instrument for the long term.

Closely related to this idea of business intent is the type of instrument that the entity holds. This is the second entity-specific factor that impacts the usefulness of fair value. The CFA Institute's (2009) respondents support fair value for all financial instruments, and are unsure about fair valuing own debt¹⁵ and non-financial assets and liabilities. This blanket acceptance of fair value's suitability differs from PwC's (2010) study where interviewees did not prefer the use of fair value for loans held for the long term, fixed income held until maturity, deposits and own debt. This difference, between respondents answering the CFA Institute's survey and interviewees partaking in PwC's interviews, mirrors the different

¹⁴ The IASB (2011c: 63) describes impairment as the process whereby financial assets, which are not fair valued, need to be written down to the present value of the expected cash flows (using the "original effective interest rate") when there are indications that the financial assets are carried at inflated values. Actual losses, and not those that are expected to occur, are recognised.

¹⁵ Fair valuing own debt relates to the situation where a company fair values its liabilities. Included in the fair value of a liability is the reporting entity's own creditworthiness (IASB, 2010c). Should a reporting entity become less creditworthy, its liability would decrease in value and the entity would make a profit from being downgraded in terms of creditworthiness (Goff, 2011).

stances that were initially taken by the FASB and the IASB. According to Hoogervorst and Seidman (2012) the IASB issued IFRS 9 whereby financial instruments will be measured using a mixture of fair value and amortised cost¹⁶; whilst the FASB's exposure draft in 2010 suggested fair valuation of nearly all financial instruments. Since then the FASB has incorporated more use of amortised cost. The CFA Institute's (2009) study and that of PwC (2010) took place at a time (around 2010) when the two accounting bodies were in two very distinct camps. The difference in views between PwC's (2010) and the CFA Institute's (2009) studies cannot be attributed to geographic composition as both studies had more than 50% representation from the Americas, around 30% from Europe, Middle East and Africa and around 15% from Asia Pacific. However, the CFA Institute's (2009) geographic breakdown applies to a combination of research analysts, portfolio managers, accountants, auditors and corporate analysts. For the purpose of the current study, only the research analysts and portfolio managers (as end-users) were included. It is possible that the geographic breakdown of the end-user group differs from the breakdown of the total sample. It should also be noted that, even though the studies' results differ on the absolute level, there is a lot of overlap. A sizeable portion of the respondents to the CFA Institute's (2009) study are unsure or vote against the use of fair value for instruments with longer term, non-trading use (such as demand deposits, loans and financial liabilities). On the other hand, a large number of PwC's (2010) respondents were pro-fair value disclosures¹⁷ for long-term loans and deposits and a noticeable number of respondents voted to measure all debt securities at fair value in the balance sheet akin to the CFA Institute's respondents. In summary, fair value is useful for certain types of instruments and therefore fair value's usefulness is tied to instrument type. Gassen and Schwedler's (2010) study underscores this point when they conclude that mark-to-market fair values are useful for all assets and modelled fair values are useful for all financial assets.

The final entity-specific factor that impacts the usefulness of fair value is the type of entity. PwC (2010) finds that investment professionals focusing on the insurance sector perceive fair value as more useful than those focusing on banks. PwC (2010) links this

¹⁶ Amortised cost is a measurement method whereby future cash flows' present value is calculated using an "effective interest rate" (IASB, 2011c: 9).

¹⁷ When an item's fair value is disclosed this means the item is not measured at fair value in the financial statements. However, the fair value number is communicated to the user of financial statements within the notes to the financial statements.

preference to insurers' larger fair valued portfolios relative to that of banks. In terms of factors impacting fair value's usefulness, this is interpreted as fair value being more useful in entities with larger fair valued portfolios.

To conclude this section, entity-specific factors impact upon the perceived usefulness of fair value. Some respondents perceive business intent as impacting fair value's usefulness, where fair value is more useful when the business intent is to trade the item in the near term. Some respondents view fair value's usefulness in relation to the type of instrument that the entity holds. In this instance fair value is generally seen as useful for financial instruments. Finally, fair value's usefulness is also linked to the type of entity. It is perceived that fair value is more important for insurers, who hold large fair valued portfolios, relative to banks, who hold smaller fair valued portfolios.

2.5.2.5 Usefulness is impacted by the market

The first market-related factor that impacts the usefulness of fair value is its liquidity. Liquidity refers to the extent to which items are traded in the markets and the ease with which a fair value can be established in the market place. In fact, one of the comments made in the SEC's (2008) study suggests that the liquidity of the asset should decide the method of valuation. Gassen and Scwhedler's (2010) study confirms the importance of liquidity when investment professionals vote market values to be the most decision useful for all assets but mostly rank modelled fair values as least decision useful. The difference between market values and model values is liquidity and transparency, market values are liquid and transparent; whilst modelled fair values are illiquid and less easy to verify. Hence, fair value is more useful if markets (and the instrument) are liquid.

The second market-related factor that impacts fair value's usefulness is the volatility in the market. This is because fair value is pro-cyclical in nature, meaning it follows the volatility of the market. One commenter to the SEC (2008) noted that mark-to-market fair values introduce volatility to the balance sheet. Linking this volatility to illiquid markets, it was also noted that short-term changes in illiquid markets distort the balance sheet. This is especially true if assets are held for the long-term (SEC, 2008). This statement refers to the fact that fair value introduces short term fluctuations to the balance sheet that are not

necessarily warranted if the company does not intend to trade out of the instrument in the near future. In summary, fair value is less useful in volatile markets if the entity does not intend to trade out of the position in the near future.

The final market-related factor that impacts fair value's usefulness is the cycles in the market and particularly the downward cycles. A few commenters highlighted how fair value's pro-cyclicality led to a further reduction in prices in "illiquid or distressed markets" (SEC, 2008: A-2). This pro-cyclical effect of fair value led to some commenters suggesting that it might be more sensible to have the fair value information as part of disclosures rather than recognised numbers. As such, the capital structure need not be weakened in distressed markets. On the other hand, it was noted how fair value reflects the risks and actual market condition and as such fair value acts as a timely warning (SEC, 2008). In summary, users vary in terms of fair value's usefulness in times of distress. On the one hand, the view is held that fair value artificially forces prices downwards when markets are illiquid or at the trough of a cycle. On the other hand, the view is held that fair value is an honest reflection of risks and liquidity issues. Therefore, the exact stage in the market's cycle does impact on fair value's perceived usefulness; however, users vary in terms of fair value being more or less useful in times of distress.

To conclude this section: the market impacts the perceived usefulness of fair value. This is done through its liquidity, volatility and cyclicality. Fair value is more useful when the market and the fair valued instrument are liquid. Fair value is more useful when the market is less volatile and perceptions concerning fair value's usefulness when the market is at a trough or heading towards a trough differ. One view is that fair value causes downward pressure on prices and therefore is less useful. Another view is that fair value honestly reflects risk and the market situation and is therefore still useful.

2.5.3 The extent to which users perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information"

The current study is not only concerned with users' views on the usefulness of fair value, but utilises the Conceptual Framework's qualitative characteristics to understand the extent of fair value's perceived usefulness. Due to the current research's focus on the

Conceptual Framework, the prior studies were considered for references to the “qualitative characteristics” of the Conceptual Framework (IASB, 2010b: QC3). These characteristics are: faithful representation (which can be disaggregated into neutrality, completeness and accuracy); comparability; verifiability; timeliness; understandability and relevance (IASB, 2010b).

Seeing as the reviewed literature was not focused on understanding end-users perceptions concerning usefulness as defined by the qualitative characteristics, the following section represents the piece-meal view of what was available in the reviewed literature. What follows is a detailed consideration of the usefulness of fair value against the qualitative characteristics that should distinguish useful information.

2.5.3.1 Faithful representation

The comment was made that fair value contributes to general “transparency”¹⁸ in the financial sector (SEC, 2008: 141). Some commenters to the SEC (2008) note how fair value allows a faithful reflection of the actual market and risks and the SEC staff summarise their findings by noting that investors perceive fair value to be more reliable than other measurement methods. However, several analysts, in their reports, discount the profit attributable to a decrease in own debt (SEC, 2008). This indicates that analysts do not perceive the profit associated with a company’s decreased creditworthiness to be a faithful representation of the economic reality. This negativity towards the fair valuation of own debt is also evident in the CFA Institute’s (2009) and PwC’s (2010) results. However, the CFA Institute’s (2009) respondents are divided in almost equal numbers of supporters, opponents and people who are simply unsure regarding the appropriateness of fair valuing own debt. Faithful representation can be disaggregated into neutrality, completeness and accuracy. What follows is a consideration of users’ perceptions concerning fair value’s neutrality, completeness and accuracy.

¹⁸ The IASB (2010b: BC3.44, QC12) notes how transparency is a word used “to describe information that has the qualitative characteristics of relevance and representational faithfulness enhanced by comparability, verifiability, timeliness and understandability”. For the purpose of the current research transparency is seen as a contributing component of faithful representation as transparent information will provide a complete picture of the phenomenon. Completeness and a faithful representation of the “phenomena that it purports to represent” are all linked to faithful representation.

2.5.3.1.1 Neutrality

It seems as if neutrality is not always achieved. A possible distrust is exposed when several respondents note that they would make adjustments to the financial instrument values for indications that management was biased (PwC, 2010). The PwC (2010) interviewees request more information on management's fair value estimates when instruments are illiquid. This link between estimates and illiquid instruments suggests that management has the ability to include biased information through models. This is based on the fact that estimates feed into models, whereas market values should not be based on estimates but market values. A commenter to the SEC (2008) confirms modelled fair value's susceptibility to manipulation when noting that fair value allows too much room for interpretations and judgement.

2.5.3.1.2 Completeness

Looking at completeness, there seems to be a general lack in the current offering of disclosure around fair values (Papa and Peters, 2011; PwC, 2010; SEC, 2008). PwC's (2010: 5) respondents define a need for more disclosures on fair values. These interviewees call for "portfolio composition", information on "risk factors", "valuation methods and assumptions" and "sensitivity analyses". Investors at the roundtable discussions echoed the need for more information concerning methods, assumptions and sensitivities to assumptions (SEC, 2008). Methods, assumptions and sensitivity analyses again focus the lack of information on modelled fair values. The current sensitivity analysis, that forms part of market risk disclosures, is faulted for its subjectivity, assumptions, the immateriality of alternative scenarios, lack of compound scenarios and lack of considering the impact of correlations between market risk factors (Papa and Peters, 2011).

However, amidst this call for additional information, PwC (2010) notes how respondents warned against an information overload. This proves that there is a fine line between sufficient information and too much data. A respondent to Papa and Peters' (2011: 10) study assists preparers in deciding on which information to include: "crucial information that adds value to financial statement users as opposed to mere compliance".

2.5.3.1.3 Accuracy

What follows is information to support the general theme that fair value is not that accurate. However, inaccuracy seems to be tied to illiquid or inactive markets.

A number of commenters postulated that market prices do not give an accurate reflection when markets are illiquid or inactive (SEC, 2008). This focus of the SEC's (2008) respondents on the accuracy of market prices in times of distress is logical given the timing of the SEC's investigation. The SEC's research occurred in the midst of the credit crisis. In fact, some commenters noted how the credit crisis was exacerbated by inflated fair values prior to the crisis; followed by undervalued prices during the crisis (SEC, 2008). One commenter to the SEC's (2008: A-11) study requested the inclusion of a "range of prices" when markets are "inactive or illiquid" and an analyst participating in the Papa and Peters (2011: 50) study highlighted the importance of "a sensitivity analysis" to "market variables". The PwC respondents (2010) also requested an indication of financial instruments' sensitivities to changes in fundamental assumptions. This call for a range of prices and sensitivities suggest that fair value is not necessarily a specific value and accuracy could be enhanced by reporting a range as opposed to a specific point.

2.5.3.2 Comparability

The reviewed studies did not elaborate much on comparability. However, the SEC staff (2008) note how investors indicated a preference for fair value when trying to achieve comparability. However, Papa and Peters (2011) include a citation that the comparability in IFRS 7 disclosures amongst companies needs to improve.

2.5.3.3 Verifiability

Mark-to-market seems to be verifiable, whilst mark-to-model fair value is not. Gassen and Schwedler (2010) link their respondents' preference for market as opposed to modelled fair values to the importance of external verifiability. The SEC (2008: 145), based on a review of 106 analyst reports, note how a number of analysts highlight the "softness" of

fair value estimates. Such a “softness” would prohibit the individual users from verifying the numbers.

2.5.3.4 Timeliness

Timeliness is part and parcel of information that can influence decisions (IASB, 2010b). The general idea that fair value is used (see section 2.5.1) renders fair value timely enough to be useful. It was noted how fair value gives a timely warning of issues because it reflects the actual market situation (SEC, 2008).

However, individual issues were identified with timeliness. PwC (2010) notes how some users obtain financial instrument information from sources other than financial statements because of timeliness issues. However, this is a general issue with the timing of financial statement issuance as opposed to reported fair values specifically.

In summary reported fair values are timely enough to impact decisions, but the general timing of financial statements are seen to be lagging.

2.5.3.5 Understandability

Understandability is linked to clarity and conciseness (IASB, 2010b). The reviewed literature highlight issues with understandability. PwC (2010: 9) concludes that disclosures around fair value need to improve. Interviewees note the need for enhanced disclosure on illiquid instruments “to help them better understand” managements’ assumptions. Investors, participating in the SEC’s (2008) first roundtable, suggest the consolidation of dispersed information on fair values into one location in the financial statements. This suggests that investors did not perceive the information to be as concise as it could be. Papa and Peters (2011: 15) quote a sell-side analyst who notes the need for more detail concerning risk measurement methodology in an attempt to “better understand”.

2.5.3.6 Relevance

Overall, fair value is deemed relevant because it has the capability of “making a difference in the decisions made by users” (IASB, 2010b: QC6) and section 2.5.1 has shown that users utilise fair value. PwC (2010: 5) summarises that most investors and analysts perceive fair value as “relevant and valuable”. The SEC (2008: 146) notes how investors, as part of roundtable discussions, perceive fair value as the “most relevant” measure for financial instruments. However, as part of the comment letter process, the view was expressed that fair value is less relevant when markets are distressed because prices are uncertain (SEC, 2008).

2.5.4 Comparison between users’ information needs and their perceptions of fair value

The referenced research does not prioritise users’ needs in terms of the qualitative characteristics in order to establish the urgency of voiced inefficiencies. However, the previous section highlights that users perceive limitations with the current offering. It is deducted that users would not voice inefficiencies if these are not important on some level. As such users’ reservations about neutrality, completeness, accuracy, comparability, verifiability, timeliness and understandability need to be addressed.

2.5.5 Summary

Prior literature shows that users use fair value. Users’ perceptions of fair value seem to be impacted by various factors, namely: third party verification, the availability of other information, users’ interaction with the data, entity-specific factors and the market. It is concluded that fair value is open to manipulation when using modelled fair values, the disclosures accompanying fair value seem to be lacking (particularly for modelled fair values) and fair value is deemed inaccurate when markets are illiquid. Even though little is said about the comparability of fair values, the SEC staff (2008) summarise investors’ preference for fair value to achieve comparability. However, Papa and Peters (2011) reveal limitations in comparability of fair value disclosures. Mark-to-market is verifiable, whilst mark-to-model is not. Fair value is timely enough to impact decisions. Issues are

identified with fair value's understandability and it is concluded that fair value is relevant. The examined literature did not enable the identification of the gap between users' perceptions of the current fair value offering and users' needs.

2.6 The current study's contribution to the field

The current study contributes to the literature because the analytical lens is that of usefulness and this lens is focused by the Conceptual Framework's qualitative characteristics. The CFA Institute (2009), Chatham et al. (2010), Gassen and Schwedler (2010), Papa and Peters (2011), PwC (2010) and the SEC (2008) all touch on elements of usefulness. However, the studies are focused on different research questions and do not necessarily exhaust themes concerning users' perceptions on the granular level of the Conceptual Framework.

Another contribution is the current study's focus on usefulness under IFRS. Apart from the CFA Institute (2009) and Papa and Peters (2011), the other reviewed studies do not commit to either a US GAAP or an IFRS focus. Chatham et al. (2010) refer to the IASB and International Accounting Standards, but the comment letters, which they analyse, include the United States where US GAAP is prevalent. The geographically mixed response pool would suggest a combined focus. The CFA Institute's study (2009) and that of Papa and Peters (2011) also tend to focus on very specific aspects of IFRS, namely IFRS 9 and IFRS 7 respectively. The SEC (2008: 24) identifies a general consistency in the way that fair value is defined under both US GAAP and IFRS. Fair value is also the predominant measure in accounting for "financial assets and liabilities" under both accounting standards. PwC (2010) specifically notes how there tends to be similarity in views across geographic boundaries. However, there are some differences in accounting application (SEC, 2008). The FASB and IASB have been working on converging accounting for financial instruments (SEC, 2011) and this process is still ongoing (Hoogervorst & Seidman, 2012). Therefore the current study's focus on a single set of reporting standards ensures greater homogeneity across participants; which in turn could support clarity of themes.

This study also contributes because most of the primary data were gathered from January 2012 onwards. This is of particular importance because fair value standards and companies' interpretation of the standards have evolved since the credit crisis and respondents were given the chance to reflect on the credit crisis and changes to financial reporting in the interviews. Examples of recent changes to financial instrument accounting include: allowing the reclassification of financial instruments effective from July 2008 (IASB, 2008); IFRS 7's introduction of the "fair value hierarchy" and enhancements to disclosures on liquidity risk effective from January 2009 (IASB, 2009: 3) and IFRS 7's improved disclosures regarding the transfers of financial assets issued October 2010 (IASB, 2010a). Another example of recent change is the issuance of IFRS 9 with an effective date of January 2015 and allowance for early adoption (IASB, 2011e). Gassen and Schwedler (2010) conducted their studies prior to the credit crisis. The CFA Institute (2009), Papa and Peters (2011), PwC (2010) and the SEC (2008) gathered their data after the start of the credit crisis. However, it is still argued that, given financial reporting's evolving nature; the recentness of the current study's primary data is one of its attributes.

The current study is focused on the usefulness of fair value to financial sector analysts. The prior chapter considered the existing studies in the field and positioned the current study within the literature. The next chapter will focus on the ontology and epistemology that are relevant to the current study and the methods that were utilised to understand the extent to which analysts perceive fair value, under IFRS, to be useful.

3. METHODOLOGY

The current study adopts Norreklit et al.'s (2006: 42, 43) "constructivist pragmatism" ontology whereby it is argued that reality is a combination of "facts, logic, values and communication". The theory that is applied to this study is the "decision-usefulness theory of accounting" (Staubus, 2000: 333). What follows is a discussion of the ontology and theory and their relevance to the current study.

3.1 Constructivist pragmatism ontology and interpretive epistemology

Ontologically this paper adopts Norreklit et al.'s (2006: 42 and 58) concept of "constructivist pragmatism". The ontology will be discussed followed by a practical application of its principles to the current study. Constructive pragmatism combines elements of "empiricism", "rationalism", "voluntarism" and "social constructivism". According to Norreklit et al. (2006: 43) reality is a mixture of "facts, logic, values and communication". In this ontology a fact is not dependent on the individual, but its existence needs to be confirmed as a fact in order to be labelled as a fact. Facts are subjected to logic in an attempt to uncover possible outcomes. Norreklit et al. (2006: 47-48) note that the application of logic mostly happens automatically and is the consequence of prior learning. Logic is connected with the "methods of analysing, defining and developing ideas or concepts". Values are seen as the motivating link between "meaning, fact and logic" that leads to choice and action. Finally communication enables the individual actor to convey his reality in the process of creating a socially constructed reality.

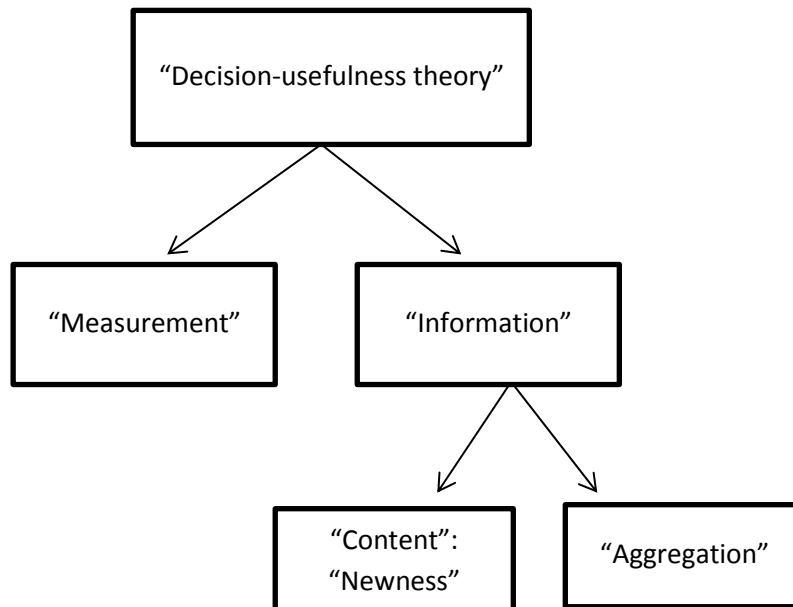
What follows is an argument for why Norreklit et al.'s (2006: 42) "constructivist pragmatism" is the appropriate ontology for this study. Firstly, the analysts are faced with a number of facts in their decision making processes. These include the macro-economic conditions, sector-specific facts and entity-related information (of which the financial statement is one source). Norreklit et al. (2006) accept the argument that some facts are socially constructed; however the condition for the existence of a fact is the independence of said fact from the individual. Therefore financial statements, which contain socially constructed measures and categorisations, are accepted as facts because these financial

statements exist whether analysts use them or not. Secondly, the analysts apply their logic to analyse the different information sources. Their prior learning is used to extract possibilities. An example of the application of logic would be assessing risks or forecasting entities' earnings. The analysts' values are rooted in their desire to understand the entity in order to advise the investor. As such their interaction with the facts and application of logic is driven by the need to make buy, sell or hold recommendations. Lastly, the analysts communicate their individual realities by actually recommending the buy, sell or hold. This communication can be through analysts' reports or directly to a client. The market is informed through this communication and the individual analyst's reality becomes a social reality.

The current study adopts an interpretative epistemology for analysis. Ahrens and Chapman (2006) distinguish between interpretivism and positivism based on the perception of reality; reality is seen as socially constructed when applying an interpretative epistemology. This idea of a socially constructed reality links with the prior paragraph that described how reality is the amalgamation of facts, logic, motivation and communication. The adoption of this epistemology addresses a gap in financial accounting research: limited interpretative studies concerning the users of financial reports (Durocher, 2009). Durocher (2009) notes how surveys, content analysis and research based on experiments are distanced from the actual individual. The current study's one-to-one interviews with a prominent user-group, analysts, eliminate any such distance. The direct contact with the user enables a better understanding through exploration of issues and direct communication. Therefore this study contributes to the field by bridging the gap between theory and end-users in an attempt to understand. This focus on understanding points back to interpretivism. According to Wright (1971, cited by Bryman & Bell, 2011: 16) interpretivism is concerned with "understanding".

3.2 Applying the “decision-usefulness theory” to the current study

Figure 1 – The decision-usefulness theory



Based on a combination of Barth (2000), Hitz (2007) and Staubus (2000).

The theory that is applicable to this study is the decision-usefulness theory. What follows is a discussion of the decision-usefulness theory, a disaggregation of this approach into its component parts and a consideration of the relevance of this approach to the current study.

The current study’s primary focus is to understand whether fair value under IFRS is useful. Therefore, the “decision-usefulness theory”, where the objective of financial reporting is to give information to investors that will be useful for buy, hold or sell decisions, is applicable to the current study (Staubus, 2000: 333). The fact that the current study utilises the Conceptual Framework serves as further confirmation that the decision-usefulness theory is relevant. Scott (2009: 5-6) notes that “current statements of basic accounting concepts, most notably the Conceptual Frameworks of the FASB, IASB and the Canadian Accounting Standards Board (AcSB) are based on decision usefulness”. This statement is evident in the wording of the Conceptual Framework when the IASB (2010b) asserts that the general needs of most users are met by financial statements that are useful in economic decision making.

Dunne et al. (2008: 27) is an example of a prior study that utilised the “decision-usefulness framework” as their “theoretical lens” when examining the impact of IFRS implementation in the UK, Italy and Ireland. Dunne et al. (2008: 30) argue that the decision-usefulness approach is relevant to their study because of their focus on the “usefulness” of the recently adopted IFRS. The decision-usefulness focus is also deemed a rational choice because it utilises an objective set by the standard-setter to assess financial reporting governed by the standard-setter’s rules, namely IFRS (Dunne et al., 2008). Utilising Dunne et al.’s arguments: the current research is also focused on aspects of usefulness, namely the usefulness of fair value to analysts. Therefore it makes sense to adopt the standard-setter’s objective of usefulness in a study that focuses on fair value that is governed by the standard-setter’s rules.

Staubus (2000) and the Conceptual Framework (IASB, 2010b: OB3) refer to users’ interest in potential future cash flows as part of their discussion concerning decision-usefulness. Staubus (2000) and the IASB (2010b) link financial statement elements (such as assets, liabilities, income and expenses) to potential future cash flows because these elements assist users in predicting potential cash flows. Fair value, which is the focus of the current study, is used to measure some of the assets and liabilities of an entity. Therefore, the decision-usefulness theory, with its focus on financial statement elements, is applicable to the current study, with its focus on one of the measures used to measure financial statement elements.

Hitz (2007: 323) adopts two perspectives within the overarching decision-usefulness approach: “the measurement” and the “information perspective”. Hitz (2007: 334) distinguishes two subsections to the information point of view: “information content” and “information aggregation”. “Information content” is linked to “newness” of information. Barth (2000) links “information aggregation” to the accounting process’s ability to aggregate information, even though this information might not be new to the market.

The “information aggregation” perspective is relevant to the current study. This thesis focuses on the usefulness of fair value information prepared under IFRS. This information is communicated in annual and quarterly reports. Financial reports are backward-looking by nature and quarterly and annual reports are released some time after the period to which it relates. As such, the information within the financial statements is mostly known to the

investment community. It is clear that the Conceptual Framework intends financial reports to meet the “information aggregation” aspect of useful information. The framework notes that information can have the ability to change decisions even if the user decides not to act on such information or this information is already available from other sources (IASB, 2010b).

The current study’s focus on fair value also introduces the “measurement perspective”. Barth (2000: 16) connects the measurement function to the correspondence between an “accounting asset or liability” and the “associated economic asset or liability”. Applying Barth’s (2000) comment the “measurement perspective” is relevant to the current study because fair value, by definition, is concerned with reporting the value that could be obtained in an economic transaction.

In summary, the “theoretical lens” adopted by the current study is the decision-usefulness theory. This theory is suitable to a study that focuses on usefulness. Theoretically the decision-usefulness of fair value under IFRS’s can be argued from both an information-aggregation and measurement perspective.

3.3 Methods

The next section will consider the research methods that were employed to gain an insight into analysts’ views regarding the usefulness of fair value under IFRS.

3.3.1 Concepts being researched

The current research focuses on analysts’ views concerning the usefulness of fair value reported under IFRS. The concepts usefulness, fair value and “reported under IFRS” were all considered in chapter two. A reminder of the main concepts follows. This is accompanied by an explanation of the interaction between usefulness, fair value and IFRS.

Recall that a link was derived between usefulness and economic decisions in chapter two. This arose from the IASB’s (2010b: Introduction) claim that most users’ needs are

fulfilled through information that is useful in “making economic decisions”. The IASB (2010b: QC5 and QC19) goes on to introduce qualitative attributes that characterise useful financial information. “Relevance” and “faithful representation” are the primary qualities; whilst “comparability, verifiability, timeliness and understandability” enhance usefulness. The definitions to these characteristics were also considered in chapter two. Fair value is defined as: “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” (IASB, 2011b: 11). The IASB (2011a: 62) identifies three main approaches in measuring fair value. These are the “market approach, the cost approach and the income approach”. The market approach utilises amounts and other information that is available in the market place for the same or similar elements. The cost approach relates to the price that would be needed to substitute the asset at its current level of performance. The income approach discounts expected amounts to a present value (IASB, 2011a). Finally, “reported under IFRS” is seen as financial information that is derived from following the IASB’s rules.

The current research integrates the concepts of usefulness, fair value and IFRS as follows: the Conceptual Framework’s six qualitative characteristics of useful information are used to gauge the extent to which analysts, who use fair value that is reported under IFRS, perceive fair value as useful. The research will not only utilise the standard-setter’s benchmark, but also investigate analysts’ own views concerning usefulness. All of the above can be summarised by the research objectives that were introduced in chapter one. The specific objectives of the study are to:

1. Understand analysts’ use of fair value under IFRS
2. Explore analysts’ views on the usefulness of fair value under IFRS
3. Assess the extent to which analysts perceive fair value as useful as defined by the IASB’s (2010b: QC3) “qualitative characteristics of useful information” and
4. Compare analysts’ information needs with their perception of fair value under IFRS.

3.3.2 Population

The analyst focus was argued from the literature in chapter two. What follows is a discussion explaining the focus on financial sector analysts who analyse companies reporting under IFRS.

The initial plan was to focus on the banking sector only. However, experts who were consulted during the pre-pilot and pilot phase of the current study noted how a focus on banks analysts would severely limit the number of interviews. A broader view also allows for a more holistic approach to the analyst perspective. PwC (2010: 6), in their study on investment professionals' views concerning financial instrument reporting, defines "banking, insurance and generalists" as "key industries". The importance and validity of considering fair value across the whole of the financial sector was accentuated during the pilot interview with a sell-side analyst. The interviewee did not only relate the fair value questions to banking, but also to other financial entities. This decision to include the financial sector (banking, insurance and other financials) introduces elements of "homogeneity" and "heterogeneity" (Patton, 2002: 234-235). The common denominator across the entire population is the fact that all the cases are within the financial sector and greatly impacted by fair value. Homogeneity intensifies within the sub-sectors. The dividing factor across the population is the fact that different sub-sectors could be impacted by fair value in different ways. The variation in the population will allow the study to identify common themes that exist across the entire sample. Patton (2002) notes how such themes are particularly important because they exist across a varied group. He notes that variation is not only important to identify overarching themes, but also for identifying uniqueness amongst individual cases. The current study's ability to generate a number of accounts per homogenous sub-group allows for depth of explanation within said groups (Patton, 2002).

Due to this study's focus on fair value under IFRS; the population is further qualified to only include analysts that analyse companies reporting under IFRS (see chapter two for a discussion on the IFRS focus).

3.3.3 Qualitative methods of data collection and analysis

Qualitative methods of data collection and analysis were applied in an attempt to understand users' views concerning the usefulness of fair value. Bryman and Bell (2011: 411) note how a qualitative study "seeks an understanding of" "beliefs". The primary data were collected by means of face-to-face, semi-structured interviews. Campbell and Slack (2011: 55) link semi-structured interviews with "narrative rich evidence". This type of research method is effective because it allows the researcher to cover the areas of research, but it provides the freedom to explore respondents' own views (Durocher, 2009; Madhavan & Grover, 1998). Bernard and Ryan (2010) note how semi-structured interviews are flexible but similar in content focus, as such allowing interviews to be compared. Semi-structured interviews were used by Barker and Imam (2008), Campbell and Slack (2008, 2011), PwC (2010) and Whitwell et al. (2007) in pursuing investment professionals' input concerning accounting matters.

Using interviews as research tool to gather users' views contrasts with some of the methods employed by the studies that formed part of the literature review. The CFA Institute¹⁹ (2009) and Gassen and Schwedler (2010) sent survey questionnaires to respondents. Their closed questions, with its limited capability to enable a deeper understanding, would not suit the current study's purpose. Other issues with "survey research" is the probability that the sampled responses do not truly reflect the views of the population ("sampling error"); bias creeping in because of certain members not responding; uncertainty as to whether respondents really understood the wording whilst making their selections and the possibility that errors might occur during the processing of the data (Bryman and Bell, 2011: 196).

Chatham et al. (2010) applied content analysis to comment letters. The reason why comment letters were disregarded for the current study is two-fold: Firstly, prior research noted that end-users of financial information hardly engage via comment letters to standard-setters (Chatham et al., 2010; Durocher et al., 2007). Secondly, the research question is very specific and had to be considered from various angles (general use, views on usefulness and usefulness in line with the qualitative characteristics). As such, a

¹⁹ The CFA Institute's (2009) survey allowed the members to elaborate on their selections; however these comments were not analysed by the CFA Institute (2009).

specially designed research tool had to be constructed to answer the research question as opposed to allowing commenters the freedom of a comment letter where they might not address all the relevant issues.

3.3.4 Sampling method and sample size

3.3.4.1 Sampling method

This study employed “purposive sampling” to identify individuals that are relevant to the study and could answer the research question (Bryman & Bell, 2011: 442). Purposive sampling is not statistically representative and therefore cannot be extrapolated across a population (Bryman & Bell, 2011).

Prior research has shown that it can be difficult to get investment professionals to participate in accounting research: Gassen and Schwedler (2010) achieved just over 1% usable responses with the backing of professional bodies. Chatham et al. (2010) note how only four out of 168 commenters to the IASC’s discussion paper: Accounting for Financial Assets and Financial Liabilities were end-users. In contrast, Campbell and Slack (2011) managed to get nineteen sell-side, London-based banking analysts from a possible list of twenty to grant them interviews. This could be attributed to their long time-scale: Campbell and Slack (2011) conducted their interviews over a 21 month period and specifically mention how they avoided contacting analysts over their busy periods. PwC (2010) managed to interview 62 investment professionals over three months. However, PwC’s respondents are dispersed over the United States, Europe and Asia-Pacific. PwC also has a vast network of professional investor contacts. It is also not stated how many interviewers were used to conduct PwC’s interviews.

The current study simultaneously employed two methods to reduce the chance of insufficient data: the researcher cold-called analysts and contacts were requested to introduce the researcher to possible interviewees (this would fall under Patton’s (2002: 237) “snowball” sampling). What follows is an explanation of how the researcher applied each of the two methods in an effort to locate financial sector analysts who would relay their views concerning the usefulness of fair value.

Cold-calling

Financial sector analysts had to be identified for cold-calling purposes. Campbell and Slack (2011) used the sell-side analyst following of a bank to identify potential candidates for their study. The current research employed a similar method: utilising the sell-side analyst following of various financial institutions. This was combined with “cold-mailing” via LinkedIn²⁰. The next section will describe the processes that were followed in contacting 72 individuals. These efforts culminated in interviews with nine analysts.

Lists with the sell-side analyst following of four financial institutions that report under IFRS were obtained. Attempts were made to contact 55 analysts following these four companies. The process to secure interviews via cold-calling and “cold-mailing” started in all earnest in December 2011 and lasted until the end of March 2012. Of the 55 individuals that were contacted, seven analysts agreed to be interviewed.

LinkedIn messages were sent to targeted individuals (other than those analysts appearing on the sell-side analyst lists) in addition to the above cold-calling endeavour. Seventeen such messages were sent and this resulted in two participants.

The final attempt to establish more contacts was an invitation to the “Equity Research Analysts” networking group on LinkedIn. This group has 6 635 members as at the 4th of August 2012. The invitation was made via an announcement on LinkedIn. The announcement stipulated the nature of the research and requested interested parties to contact the researcher. Nobody responded to this invitation.

Snowball Sampling

Snowball sampling resulted in eleven interviews. Existing contacts introduced the researcher to five candidates, one of whom was a gatekeeper who did not participate. The

²⁰ LinkedIn allows contact with people with whom there is not a connection via a functionality called InMails, accessible via a monthly subscription. LinkedIn also allows a detailed search for people who meet certain criteria. The researcher searched for the names of all people who met criteria that would suit the research. The researcher then read through a number of the individuals’ credentials and sent InMails to seventeen people that were deemed suited to this study. Only seventeen were sent because the researcher’s subscription to InMails limited the number of InMails that could be sent on a monthly basis. Of these, two were successful.

gatekeeper is involved in research but does not analyse financial sector entities. The gatekeeper referred the researcher to three suitable candidates. Analysts participating in this study referred the researcher to four other individuals.

Pettigrew and McNulty (1995: 851) consider the snowball effect as the best way to establish “access to elites”. Difficulties were encountered in trying to establish access to a very specific group, namely that of the analyst. This is proven when only nine, of a contacted 72 individuals, agreed to participate in this study and none of the analysts registered with the “Equity Research Analysts” networking group responded to the interviewer’s invitation on LinkedIn. As such, snowball sampling is suitable.

In summary, this study consists of twenty interviews with financial sector analysts in an attempt to understand analysts’ views on the usefulness of fair value under IFRS. The decision, to stop at twenty, was driven predominantly by time constraints and limited access.

3.3.4.2 Sampling size

Biggam (2008) posits that sample size is important when research claims to represent a particular population. The option to extrapolate based on the current study was eliminated when purposive sampling was employed. This research is not representative of a population; but of the twenty interviewees’ views on the usefulness of fair value under IFRS. At most this research is an attempt at generating propositions that can be utilised in future research. This paper echoes Patton’s (2002: 245) view that the “validity, meaningfulness and insights” resulting from qualitative studies are more reliant on the information content of the selected participants and the analytical astuteness of the researcher than on the sample size. Hence, sample size is seen as less important than the generation of meaningful results.

Prior studies that utilised interviews to understand accounting phenomena varied in terms of the number of interviews. The AFG and FFSA (2007) conducted interviews with a mix of nineteen end-users and other parties; Campbell and Slack (2011) interviewed nineteen

sell-side, banking analysts; PwC (2010) conducted 62 interviews with analysts and investors and Smith-Lacroix et al. (2012) interviewed eighteen auditors.

Guest et al.'s (2006: 76) study was concerned with how many interviews would lead to the point of saturation. In line with the current study, they sampled purposively. They find that a sample of twelve is likely to be enough. This is qualified in terms of research that utilises similar questions across interviews and focuses on a respondent group that is fairly "homogeneous". The current study focuses on the views of financial sector analysts and employed a question framework to ensure similarity of interview content. As such, the sample is fairly homogeneous bearing in mind that heterogeneity is introduced through sub-sectors within the financial sector.

3.3.5 Period under investigation

A pilot study took place in October 2011. The main interviews were conducted between January 2012 and April 2012. This fairly limited time period adds to the comparability of the data seeing as the respondents are operating within the same economic environment and are exposed to similar changes in regulation. The interviews were conducted after the credit crisis that commenced in the summer of 2007 and were held during a period of economic uncertainty with issues surrounding the Eurozone. This research addresses a research gap identified by Gassen and Schwedler (2010): research concerning investment professionals' perceptions of measurement bases following the credit crisis.

3.3.6 The research instrument

Primary data were collected through semi-structured interviews. This section of the paper will consider the development and design of the interview schedule as well as the rationale for the individual questions. Even though an interpretative stance is aimed at understanding, the researcher had pre-defined ideas of what to explore based on the existing literature. According to Durocher's (2009) interpretation of McCracken's approach, the existence of pre-conceived notions is acceptable in interpretative studies.

3.3.6.1 Face validity of the preliminary questionnaire

The preliminary questionnaire was considered in a pre-pilot, hour long meeting with a former analyst and an accounting expert. This allowed the researcher to test the face validity of the questionnaire. Bryman and Bell (2011) define face validity as a state where the measurement matches the concept in question. If this definition is applied to the current research, face validity would prevail if the questionnaire enabled the researcher to gauge analysts' views on the usefulness of fair value. Bryman and Bell (2011) suggest the use of experts or experienced individuals to judge the face validity of a measurement tool.

The two experts' comments on the questionnaire led to a number of changes. Numerous questions were eliminated and more open-ended questions were introduced to allow analysts the opportunity to discuss the questions in depth. Prior literature also supports this notion of open-ended questions to discover "people's attitudes and beliefs" (Cannell & Kahn, 1968, cited by Bernard & Ryan, 2010: 35). More clarity was introduced by substituting accounting terms with terms that would make sense to investment professionals. For instance "financial reporting" was clarified as "primary financial statements" and "footnotes/disclosures to primary financial statements". Lastly, unrealistic statements (such as "conveys all the information that is needed") were replaced by more generic statements. This was done to avoid the respondents being side-tracked due to a play on words.

3.3.6.2 Testing the research instrument

Piloting a research instrument can test the proper functioning thereof (Bryman & Bell, 2011). Gassen and Scwedler (2010) also piloted their survey questionnaire. Following the pre-pilot phase, the updated interview questions were tested in an interview with a sell-side analyst. After the interview, the interview schedule was discussed with a Chartered Financial Analyst (CFA) ²¹.

²¹ The discussion of the interview schedule with the CFA qualified individual is technically not a pilot interview. However, this occurred during the pilot period and contributes to the process of ensuring the robustness and validity of the interview schedule.

The sell-side analyst noted that he was pressed for time. This was expected as prior literature highlights how valuable investment professionals' time is (Elliott et al., 2007 cited in Gassen & Schwedler, 2010). This limited availability of analysts was also stressed by the pre-pilot participants. As such a questionnaire was developed to accommodate both analysts' limited time and the researcher's need to understand analysts' perceptions on the usefulness of fair value.

3.3.6.3 Significant observations and resulting changes following the pilot

The prior section explained that the rationale for a pilot study is to verify that the research instrument works as intended. The pilot interview highlighted a few issues that were considered in terms of their potential impact on the main study. It was noted that the analyst needed cues to answer two of the questions. Also, the respondent initially misinterpreted the meaning of the final question²². Upon considering the question framework, the CFA qualified individual pointed out that the section exploring analysts' use of fair value needed to be more probing, including the incorporation of questions that focus on disclosures²³ specifically. It was also noted that the interview questions needed to be worded more clearly and to the point. It was suggested that the researcher merges the questions that explore users' perception of fair values against the qualitative characteristics with the section where users' use of fair value is explored.

The section exploring analysts' use of fair value was changed to probe even more. This included probes regarding disclosures. This change eliminated the need for the two questions to which the interviewed analyst needed cues. The wording of the questions were reviewed for clarity and directness and changed where needed²⁴. The suggestion to merge two sections was not taken on board. This is because no issues were identified with their separate status during the analyst's interview. A separate question that explores users' perceptions of fair value against the qualitative characteristics is important for direct comparison to the Conceptual Framework. However, the words were updated to be more direct. The wording of the final question was considered for clarity. It was changed

²² Refer to Appendix A for the question framework that was used in the pilot period.

²³ Disclosures relate to information other than the numbers in the statement of financial position, statement of comprehensive income, cash flow statement and statement of changes in equity. These disclosures give more information (both in monetary and descriptive terms) and are regulated by the accounting standards.

²⁴ See Appendix B for the updated question schedule.

slightly and care was taken to explain its meaning to interviewees participating in the main study.

3.3.6.4 Format of the interview schedule

A major strength of qualitative interviews is the flexibility to explore the interviewees' answers (Bryman & Bell, 2011). Even though this section is focused on the interview schedule it should be reiterated that the researcher did not only focus on the planned questions, but delved into the deeper meaning of respondents' unique answers. In most instances the rationale for answers to closed questions was explored. However, asking similar questions does allow Bryman and Bell's (2011: 473) "cross-case comparability". Not only does a fairly stable question framework allow comparison, but coverage of certain topics was needed to answer the pre-existing research questions. Also, a number of questions utilised in the current study are the same as those used in prior studies (agreement between questions asked in prior studies will be discussed in more detail below). Using extant questions enables comparison with prior research (Bryman & Bell, 2011).

The interview schedule was broken down into five distinct sections: respondents' demographics; sources utilised in decision making; exploring the users' use of and views on fair value reporting; exploring the users' views of fair value's usefulness when usefulness is defined within the context of the qualitative characteristics of the Conceptual Framework; and exploring the users' needs in terms of the qualitative characteristics of the Conceptual Framework.

The interview structure allowed for the users' views on usefulness to be explored prior to investigating the perceived usefulness utilising the Conceptual Framework. This was to avoid biasing the respondents into mentioning the Conceptual Framework's qualitative characteristics when blue sky thinking was required. This follows Bryman and Bell's (2011) warning that earlier questions can affect later answers.

All questions with rating (on a "Likert scale" from one to five) or ranking were asked with the help of a "show card" (Bryman & Bell, 2011:155, 216). This five-point scale from one

(strongly agree) to five (strongly disagree) agrees to the scale that Gassen and Schwedler (2010) used. Bryman and Bell (2011) suggest the use of show cards when Likert scales or long lists of possibilities are used in interviews. In terms of making a Likert scale selection, they argue that a show card eliminates the monotonous repetition of what the scale indicators²⁵ measure and it also makes it easier for respondents to select the intended response. For the current research show cards were hard copies of the questions that included the scale. Instead of showing the scale as a number from one to five; the meaning of the indicator was shown on the show card as “Strongly agree, agree, neutral, disagree, and strongly disagree”. In the one instance where respondents were asked to rank their preference (from one to six), the list was indicated on the show card with blank spaces where analysts could indicate their ranking.

What follows is a detailed discussion of the interview questionnaire organised under the five main sections discussed above.

Section 1: Respondents’ demographics

Figure 2 - Interview questions one - six

1	Describe your role within your organisation - for example: sell-side analyst, buy-side analyst, institutional investor.
2	What sector do you focus on?
3a)	Do you focus more on any one of debt, equity or derivatives?
3b)	If yes, which type of security do you focus on most?
4	For how many years have you been in this or a similar role?
5	What geographical areas do you cover in your work? e.g. Europe, UK, US.
6	What is your educational background: University and professional qualifications.

²⁵Bryman and Bell (2011: 153) note how “concepts” are the items on which the research is focused, whilst “measures” are quantifiable indicators of concepts. If the theory is applied to the current study then the main concept being studied is fair value’s usefulness. However, this concept is broken down into more detailed concepts, namely the qualitative characteristics. None of these are measurable. Therefore “indicators” are used to measure concepts that are not naturally quantified (Bryman & Bell, 2011:154). In this instance analysts’ perceptions of fair value based on the qualitative characteristics of useful information were quantified by using a Likert scale.

Questions one to six gather background information about the respondents. The questions provide a context within which to analyse the respondents' answers (Bryman & Bell, 2011). Questions one and three are based on questions asked by Gassen and Schwedler (2010) and PwC (2010). Question two is based on a question asked by PwC (2010). Question four is similar to a question asked by Gassen and Schwedler (2010). These questions allow comparisons between the types of analysts, the financial instruments they focus on, the sectors they analyse and their perceptions of fair value. Type of analyst can vary as follows: a buy-side analyst would give investment advice internally, a sell-side analyst would sell investment advice/research to investors and a credit-rating analyst would rate the creditworthiness of companies. PwC (2010) had the same categories of analyst type. Even though the sell-side analyst lists of four financial institutions were the main focus of the cold-calling endeavour, all three types of analysts are represented in the current research. This occurred because "cold-mailing" and snowball sampling were also employed and the sell-side analyst lists were not the only sources of possible interviewees. Added to this variation in type of analyst; analysts can also focus on different types of financial instruments. Analysts' focus can vary between debt (bonds and loans), equity (shares) or derivatives (for example options). Gassen and Schwedler (2010) had the same categories of instrument focus. Sector focus could vary between the different sub-sectors of the financial sector. This level of granularity (distinction by type, financial instrument focus and sector) allows the research to identify a potential link between type of analyst, financial instrument focus, sector focus and views on fair value. Questions two and five are necessary to confirm that the respondents focus on the financial sector and IFRS, both prerequisites for participation in the research. Geographical focus (question five) is linked to IFRS because IFRS has been adopted in certain geographical areas (PwC, 2011). The combination of questions four and six are proxies for the analysts' knowledge base and these questions link directly to the Conceptual Framework's pre-condition concerning users. The Conceptual Framework refers to "users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently" (IASB, 2010b: QC32).

Section 2: Sources utilised in decision making

Figure 3 - Interview question seven

Question 7: For each statement, circle the answer that is true/ closest to the truth See each question as a separate statement				
1. My advice or decisions are based on primary financial statements²⁶				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2. My advice or decisions are based on footnotes or disclosures to primary financial statements				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
3. My advice or decisions are based on regulatory filings				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
4. My advice or decisions are based on press releases/ earnings releases				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5. My advice or decisions are based on briefings/ meetings with management				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
6. My advice or decisions are based on management discussion and analysis				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

The idea to understand the sources on which “advice or decision(s)” are based was taken from Gassen and Schwedler (2010: 501). The source focus of the advice or decisions was taken directly from a question asked by PwC (2010: 8). PwC was interested in the sources participants used to obtain data on financial instruments, whereas the current research focuses on sources in terms of advice or decisions in general. This link to giving advice or making decisions is made because of the link between usefulness and economic decisions (IASB, 2010b). Even though giving advice is not the same as making a decision; analysts advise investors, who in turn make decisions on buying, selling or holding investments. Question seven aims to confirm whether analysts use the financial statements. This question validates analysts’ participation in the study. This is because this particular

²⁶ The researcher noticed that respondents got confused with “primary financial statements” and changed the question to “income statement, balance sheet and statement of changes in equity” after a number of interviews. This question was asked in an interview setting and as such the interviewer was able to clarify the meaning before changing the wording.

research explores analysts' views on the usefulness of fair value under IFRS. The principles of IFRS are followed in the generation of financial information that is communicated via financial statements. Analysts who use neither the numbers nor the disclosures in financial statements (first two bullet points under question seven) should be excluded from this research as they will not have a view on IFRS. Gassen and Schwedler (2010: 498) used a similar type of "control question" to ensure their respondents were knowledgeable users of accounting information. This question also serves as a means to explore the vast array of resources available to and used by analysts in their decision making process. As such the importance of financial statement information is relativised in line with PwC's (2010) study. The use of the Likert scale format allows the direct comparison of answers and makes analysis easier because the answers are quantifiable. Answers with depth are not needed in this question because the study's main focus is the usefulness of fair value under IFRS. The agreement or disagreement that other sources are utilised will merely relativise the reported fair value's importance. The probe into other sources of information mimics a question asked by PwC (2010).

Section 3: Exploring the users' use of and views on fair value reporting

Figure 4 – Interview questions eight - eleven

- | |
|---|
| <p>8a) Do you use the fair value information that is available in entities' primary financial statements and disclosures?</p> <p>b) How do you use the fair value information?</p> <p>c) What would you like to see changed to improve your use of fair value information?</p> <p>9 Tell me more about your use of the financial statement disclosures on fair value.</p> <p>10 Do you adjust the fair values provided in the primary financial statements? Could you expand on this?</p> <p>11 Do you treat levels 1, 2 and 3 fair values differently? If so, what do you do with level 1; what do you do with level 2; what do you do with level 3?</p> |
|---|

Section 3 considers the users' use of and views on fair value from various angles (positive, negative, numbers and disclosures); as such allowing the analysts the time and opportunity

to consider and articulate their use of fair value. This section is particularly focused on the first and second research objectives, namely to understand users' use of fair value under IFRS and to explore analysts' views on the usefulness of fair value under IFRS. Questions eight (a) and (b) draw on the Conceptual Framework's application of useful financial information: Financial information needs to be "useful in making economic decisions" (IASB, 2010b: Introduction). The combination of (a) and (b) aim to establish if fair value is utilised at all and if so, how. A very similar question was asked by PwC (2010). However, the PwC question provided respondents with a list of possible choices from which they had to indicate all possible uses of fair value. PwC's (2010) interviewees also gave their thoughts in relation to uses not listed by PwC. The open-ended question (b) in the current study allows the respondent to give his/her own answer, as such really exploring users' views. Question eight (c) explores if the user would like to see any changes to fair value information; a need for change implies that the status quo is not useful or as useful as the user would have liked. PwC (2010: 10) asked a similar question (focusing on financial instruments in totality) but phrased it in a positive way by asking if the information was "sufficient for" investment professionals needs. Question nine builds on this idea of usefulness equating to use; this time the focus is on the disclosures only. The idea to hone in on disclosures in a separate question came from the discussion with the CFA qualified individual during the pilot period. PwC (2010) distinguishes between numbers and disclosures in their survey as such confirming the importance of distinguishing the two. Question ten originates from the PwC (2010) survey (again PwC focused on financial instruments in totality as opposed to fair values specifically). This question tests usefulness in an indirect way; if all the fair value numbers were useful, the user would not have to adjust for a particular figure. Question eleven is inspired by Gassen and Schwedler's (2010) study. They noticed that financial professionals are sensitive to the impact of liquidity on the usefulness of fair value. This question will test the impact of liquidity on analysts' use of fair value.

Note that the overlap with questions used in prior studies enables the researcher to compare the results of the current study with the results of prior studies and grants some assurance that the questions are suitable because "in a sense" the questions were "piloted for you" (Bryman & Bell: 263). However, this research contributes to the existing literature through the consistent focus on fair value and usefulness and the qualitative characteristics as opposed to PwC's (2010) focus on investment professionals' views on

the reporting for financial instruments (certain instruments are carried at fair value and others are carried at amortised cost) or Gassen and Schwedler's (2010) focus on the comparative usefulness of different measurement bases. There is also a difference in analysis. PwC (2010) analysed their data per question and Gassen and Schwedler applied statistical analysis. The current research mostly applied thematic analysis. However, PwC provides a summary of findings that would closer reflect a thematic analysis.

Section 4: Exploring the users' views on fair value's usefulness within the context of the Conceptual Framework

Figure 5 – Interview question twelve

Question 12: For each statement, please circle the answer that is true/ closest to the truth				
To what extent do you agree with the following statements about assets and liabilities that are measured at fair value on the balance sheet, fair value movements that impact the income statement or equity and the disclosures thereof. (The below relate to primary financial statements and footnotes/disclosures to primary financial statements).				
1. Fair value is not aggressive or conservative; i.e. no hidden agenda				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
2. I have the necessary information about assets and liabilities measured at fair value; as well as fair value's impact to the income statement and equity; to make decisions				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
3. Fair value measurement and disclosures are clear and accurate				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
4. The use of fair value (in primary financial statements and disclosures) enables me to compare entities				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
5. Fair value information is verifiable				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
6. Fair value measurement and disclosures impact my decisions				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

7. Fair value information is clear and concise				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
8. The use of fair value and the disclosure notes around fair value assist me to confirm expectations and make predictions				
Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree

Question twelve is based on the definitions of the qualitative characteristics (IASB, 2010b). This question enables the researcher to assess whether the respondent considers fair value to be faithfully represented, comparable, verifiable, timely, understandable and relevant. This question links directly to the third research objective, namely to assess the extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information". Herrmann et al. (2006) is an example of prior research that utilised the individual qualitative characteristics of accounting information in US GAAP to measure the usefulness of fair value. However, their analysis did not include views from users, instead it was an argument built on existing literature, and their focus was fixed assets as opposed to financial instruments.

Question 12.1 is interested in whether analysts view fair value as a neutral measure and if so, to what extent. The IASB (2010b) identifies neutral information as one of the three elements of faithfully represented data and defines such information as unbiased.

Question 12.2 relates to completeness; this is the second component constituting faithful representation. This question measures the extent to which analysts deem fair value information in financial reports to be sufficient. The IASB (2010b: QC13) defines completeness as the availability of all the information that a user needs "to understand the phenomenon being depicted".

Question 12.3 is aimed at measuring the last of the components of faithful representation, namely accuracy. The IASB (2010b: QC15) views accuracy as a description that is without "errors or omissions" as well as the selection and application of a process without any errors. Accuracy is not seen as "perfectly accurate in all respects". The IASB uses the example of an estimate as something that cannot be assessed as being either "accurate or inaccurate". However, the number can be described "clearly and accurately" as an

estimate, the estimation process can be explained and a suitable process (to make the estimate) can be chosen and applied without errors.

Question 12.4 assesses if fair value enables analysts to compare entities. Comparability is concerned with both comparisons over time and comparisons across entities (IASB, 2010b). The IASB (2010b) notes how consistency enhances comparability.

Question 12.5 measures analysts' perceptions of the verifiability of fair value. The IASB (2010b) considers verifiability to be an assurance of faithful representation. Verifiability is seen as the general agreement amongst a number of knowledgeable, independent people that a particular item is faithfully represented. Agreement does not only entail a number but could relate to a range of numbers.

Question 12.6 measures if the analysts perceive fair value to be generally useful and if so, to what extent. This question is based on the IASB (2010b: OB2) who links usefulness to "making decisions". Question 12.6 is also a control question. In section 3 respondents' views on and use of fair value were explored. If respondents mentioned any use of fair value in decision making; the expectation is that they will mark anything from neutral to strongly agree to this question. The selected level of usefulness should align with their discussion of how they use fair value. This question also touches on timeliness. This is a concept that the IASB (2010b, QC29) defines as the availability of information "in time to be capable of influencing" decisions. Therefore if analysts indicate that fair value under IFRS is generally useful, this will be interpreted as an indication that it is timely enough.

Question 12.7 measures if fair value is understandable. The IASB (2010b: QC30) notes that the classification, characterisation and presentation of information in a clear and concise manner "makes it understandable". The Conceptual Framework specifies that complex items cannot simply be omitted to make financial reports easier to understand.

Question 12.8 measures participants' view on the relevance of fair value. Relevance is defined as the capability to influence decisions due to "predictive value, confirmatory value or both" (IASB, 2010b: QC7). Note that the question in this study refers to the actual assistance in confirming or predicting. The Conceptual Framework, however, intends a concept that encompasses information that actually impacts decision or has the

ability to impact decisions. As such, this question only addresses part of the Conceptual Framework's concept of relevance.

Respondents' answers can be compared against one another because the various concepts are clearly defined. As such, the issue of different people attaching different meanings to concepts is overcome (Bryman & Bell, 2011). Analysts mostly explained their thought processes. This allowed a deeper understanding of respondents' selections.

Section 5: Exploring the users' needs in terms of the qualitative characteristics of the Conceptual Framework

Figure 6 – Interview question thirteen

Question 13: Imagine you are given the chance to rank characteristics that impact the usefulness of fair value. How would you rank the items below?

1 is most important

Different characteristics can have the same ranking

1.Understandability

Ranking:

2.Faithful representation (reliable, complete, materially correct, neutral)

Ranking:

3.Comparability

Ranking:

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

Ranking:

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

Ranking:

6.Verifiability

Ranking:

Question thirteen assesses the relative importance of the Conceptual Framework's six qualitative characteristics. This question lacks detailed definitions. These were deliberately omitted to avoid overwhelming the respondents with lengthy definitions that might result in a loss of interest. This question provides a direct comparison between the usefulness criteria that users deem important (question thirteen) and fair value's perceived performance against these usefulness criteria (question twelve). This allows the identification of a gap between respondents' needs in terms of usefulness and their perceptions concerning fair value's usefulness. Therefore, section 5 addresses the final research objective, namely to compare analysts' information needs with their perception of fair value under IFRS.

3.3.7 Data collection

Interviews were arranged either telephonically, via email or through the use of LinkedIn. Prior research acknowledged that analysts have limited time (Elliott et al., 2007 cited in Gassen & Schwedler, 2010; Whitwell et al., 2007). Adding to an already limited availability; interviews took place from January 2012 until the end of April 2012 which included periods where entities' financial results were released. To make the interview invitations seem more attractive the analysts were mostly assured that interviews would only last for a limited amount of time. What follows is a discussion of the process of the interviews, not the content.

A summary framework of the research was sent to eighteen of the twenty participants prior to the actual interviews. The fact that two participants did not receive a copy is not deemed to distort results. This deduction is based on the fact that the summary framework is a very high-level document that was intended to inform the participants of the aims of the research and general interview focus, without communicating the actual questions. Analysis of the data served as further proof that the eighteen interviewees who received summary frameworks were not advantaged above the two who did not receive a summary framework. The average number of unique codes attributed to the twenty interviews was 39. Of the two affected interviews, one interview was coded with 39 and the other with 43 codes. This average number of unique codes is only an approximation of interview depth as all codes (including functional codes) are included. However, this is deemed a

reasonable approximation, particularly as the same measure (the combination of functional and thematic codes) is applied across the twenty interviews. This suggests that interviews with respondents who did not receive a summary framework were as content-rich as those with respondents who did receive a summary framework.

The gatekeeper who arranged three interviews for the researcher wanted to see the actual questions to ensure compliance with their firm's policy. A copy of the actual questions was given to the gatekeeper with the understanding that he would only use the questions to get sign off from the firm's decision makers and not show the questions to the participants. Again the number of unique codes was considered to gauge whether these three respondents were better informed than the other respondents. The three impacted interviews were coded with fewer unique codes than the average of 39. This confirms that the affected three respondents were not advantaged compared to the other respondents.

Apart from one participant, all interviewees were interviewed once. The one outlier is the participant to the pilot study. He agreed to participate in the main study based on the fact that the interviewer struggled to get participants. Bryman and Bell (2011) note how multiple interviews with one interviewee could be allowed under qualitative research. However, care was taken to minimise the overlap of questions. The transcript to the pilot study interview was used for sections that remained unchanged: this relates to the demographic questions (section 1), the questions about source focus (section 2) and the question about ranking characteristics in line with their perceived usefulness (the final section). Notable changes occurred in the third section that investigates users' use of and views on the usefulness of fair value. These changes included changing the wording on some of the questions and incorporating new questions. Another change could be seen in the fourth section, where analysts were asked to rate fair value against the definitions of qualitative characteristics. Even though the nature of each question remained unchanged, the wording of the questions changed. The respondent was asked to answer both the third and fourth sections in totality. This was done to ensure that the content of the respondent's interview was comparable with those of the other participants. It could be argued that this interview is not comparable with the interviews of the nineteen participants who only participated once. They had one chance to articulate their perceptions within an average interview slot of 30 minutes. This argument is rejected on the grounds that three months passed between the pilot study and the main interview; as such enough time had passed for

the interview content to retain an element of unfamiliarity. This postulate was proved upon listening to the affected respondent's second interview. He had to consider the questions and deduct reasonable answers as opposed to answering without hesitation. Furthermore, the number of unique codes attributed to this participant's interview was 41. This is very similar to the average of 39 and suggests that the participant was not unfairly advantaged compared to participants who only took part in one interview. A final validation exercise included a comparison of the pilot and the final interview to establish whether the interviewee's answers were consistent. The main ideas discussed during the first and second meeting were consistent and is evidence of the reliability of the participant's answers given reliability is defined as consistency in outcome (Field, 2009).

Of the twenty interviews, eleven were held in a meeting room at participants' offices. In total nine of the twenty interviewees could not or would not arrange for the interviews to be held in a meeting room at their place of work. Public areas that were conveniently located from the perspective of the participant were chosen for these nine interviews.

3.3.8 Ethics

Ryan et al. (2002) confirm that respondents will be more forthcoming if they are assured that their information will remain confidential. Campbell and Slack (2011) and Smith-Lacroix et al. (2012) applied this principle when they assured respondents of the anonymity of their research. The current study utilised an ethics form to explain the nature of the study (a research-based study), to assure participants that data would be anonymised and to inform the interviewees that they were allowed to change their mind and retract data from this study. The ethics form also gave the researcher the permission to audio-record the interviews and have it transcribed. Participants were given the option to read the transcribed interviews and sign off on it before these interviews would be used for data analysis. All interviewees signed the ethics forms. This idea of getting sign-off to record the interview and giving participants the chance to verify the accuracy of data is echoed in the research of Smith-Lacroix et al. (2012).

3.3.9 Length of the interviews

Prior studies use the length of the interview as an indication of the information content. For example, Campbell and Slack (2008), PwC (2010) and Smith-Lacroix et al. (2012) noted the length of their interviews. The interviews to the current study lasted 30 minutes on average²⁷. The shortest interview lasted just over seventeen minutes and the longest interview lasted just short of an hour. However, the coded transcripts to the interviews provide evidence that the length of the interview is not a proxy for its information content. The average number of unique codes that were allocated per interview was 39. The shortest interview resulted in a transcript coded with 39 unique codes. The longest interview was coded with 43 codes. In fact, if unique code per minute is used as a proxy of the content-richness of an interview, this measure indicates an inverse relation between information content and time spent in the interview.

3.3.10 Data description

The demographics of the respondents were captured in “profile matrices” (Bernard & Ryan, 2010: 111) where the cases/respondents²⁸ were tabulated against variables that could impact their answers.

The current study distinguished between buy-side, sell-side and credit-rating analysts to enable a more granular analysis across the financial analyst sample as advocated by Campbell and Slack (2011). The cohort includes one buy-side analyst, seventeen sell-side analysts and two credit-rating analysts. The broader sector focus is the financial sector, but within this sector the breakdown is: eleven analysts focusing predominantly on banks, five focusing on banks and/or other financials²⁹ and four focusing on insurance.

²⁷ This excludes the initial exchange of pleasantries, explanation of ethical considerations and the corresponding signing of the ethics form.

²⁸ These profile matrices are not shown to protect confidential information.

²⁹ These analysts are separated from the banks analysts because other financials constitute a prominent part of their research.

Figure 7 - Breakdown of sub-sector and analyst-type

Sector	Total number of analysts	Buy-side	Sell-side	Credit-rating
Banks	11		9	2
Banks and/or Other				
Financials	5	1	4	
Insurance	4		4	
Total	20	1	17	2

The small sub-sector representation is deemed acceptable in light of PwC’s (2010: 6) study where they mostly did not distinguish between the answers from “banking, insurance and generalists” industries based on immaterial variance between sub-sectors. Barker and Imam (2008: 316) is an example of a prior study where a total of 35 analysts were interviewed but within this they had only four analysts for each of the “Media” and “Retail” sectors and five for the whole of the “Financial” sector. The Barker and Imam (2008) study did not even identify the sub-sectors within the financial sector.

The majority of respondents to this study are from the sell-side. Campbell and Slack (2011: 55) only focused on sell-side analysts as an “important capital market participant group”. It can be argued that the inclusion of three non-sell-side analysts is arbitrary compared to the large number of sell-side analysts. However, these views are included because this study is not extrapolated to the sell-side analyst population and the views of non-sell-side analysts provide a potentially different viewpoint that this study could unearth.

The analysis and discussion only distinguishes between sub-sectors of the financial sector and analyst type where these are deemed material. This follows the approach taken by PwC (2010). The CFA Institute (2009)³⁰, Gassen and Schwedler (2010) and the SEC (2008) did not even give a breakdown of perspective per sector or analyst type. As per PwC (2010), the current study only identified a few noteworthy differences between the sub-sectors.

³⁰ The CFA Institute categorised by occupational group and region. All research analysts fell into the same group.

All the respondents hold degrees, the majority of these degrees relate to maths, economics and/or business. Amongst the twenty analysts they hold sixteen charters. The respondents to this study have an average experience of just over seven years in this or a similar role. The numbers of years' experience as well as the academic - and professional qualifications are important for the current study. This is because the Conceptual Framework demands that users have an acceptable level of financial knowledge and are willing to study the information with sufficient vigour in order to understand the financial information (IASB, 2010b). The respondents' qualifications and their actual experience in the field evidence that the respondents have applied themselves in an effort to understand financial information.

The twenty respondents represent fifteen different companies. The maximum number of respondents from any one company is three. This variation in company is necessary to ensure independent responses. Company culture could influence respondents to answer in a similar way.

Three of the twenty respondents were not working as analysts at the time of the interview. Smith-Lacroix et al. (2012: 37) included the views of "past or present" auditors in their paper concerning the impact of fair value on the role of the auditor. This confirms the relevance of actors' views even after they have left the area of focus.

3.3.11 Manipulation of primary data prior to analysis

All interviews were audio recorded and transcribed as advised by Guest et al. (2006) and Ryan et al. (2002). The audio-recordings were transcribed verbatim. The use of stop-words such as "you know", the repetition of words, the use of "umms" and pauses were ignored to a large extent in the transcription process. This is in line with Bernard and Ryan's (2010: 37) observation that actual, recorded speech is very disorganised and unless you are doing "conversation analysis" you do not need a "truly verbatim transcription". To ensure that all interview transcripts were reliable representations of the actual interview, all transcripts were checked for representative validity by the researcher who also conducted the interviews. Checking entailed listening to the recordings numerous times whilst reading the transcripts and correcting errors.

As per Smith-Lacroix et al. (2012), data accuracy was sought by giving every participant the opportunity to read their interview transcript. Seven participants validated their interview transcripts to some extent: two participants “had a glance” at the interviews and confirmed agreement; one participant was “happy with everything on his side” even though he had not read the whole interview; two interviewees confirmed their agreement with the interview transcripts; one interviewee responded that the transcript seems “OK” and one interviewee requested changes to be made. The main themes remained unchanged before and after the requested changes; as such these adjustments are considered as minor. Requests to alter interview transcripts are not uncommon. Smith-Lacroix et al. (2012: 41) interviewed auditors concerning the impact that fair value had on their roles as auditors. Four of the eighteen auditors requested that insignificant changes be made to the transcripts. Another one of the eighteen requested that “politically incorrect” data be eliminated. The one respondent to the current study who requested changes was interviewed in a fairly noisy coffee shop. The participant chose to be interviewed in a coffee shop because it was conveniently close to where he works and he did not want to be interviewed at his place of work. In some instances the respondent’s words could not be heard and this was transcribed as: “[could not hear what respondent said]”. The respondent filled in the bracketed gaps by indicating what he would have said. In instances where he stopped mid-sentence; he completed the sentence upon checking the interview. He also requested any mention of his prior employer, university and companies that he analysed to be eliminated from the transcript in order for the transcript to be truly anonymous. The other changes that he requested relate to things that he had said that he didn’t want to be repeated or things that he forgot to say that he wanted to include. Even with these changes the main themes and messages conveyed in the unadjusted interview agree to those in the adjusted interview. These requested changes highlighted the possibility that interviews conducted in public places might not be as audible and reliable as those conducted in meeting rooms. The likelihood of unreliable data and the impact to this study were considered. Of the twenty interviews; nine were held in public places. Of these, two of the respondents had a glance at the interview transcripts and could not see anything wrong. Another one of the respondents did not verify in how much detail he went through the transcript, but replied that the transcript “looked OK”. Also, all interviews were played repeatedly and compared to the transcripts to ensure the transcript was a true reflection of the recording. Finally, the interviewee’s required changes did not change the main ideas

arising from the interview. As such, the risk of invalid or wrong data (irrespective of interview location) was dismissed.

3.3.12 Possible limitation in data collection

Upon considering the interviews it transpired that the interviewer was not consistent in the way financial statements were defined across and within interviews. Reference to financial statements included various terms including “audited and reviewed financial statements”, “primary financial statements”, “published financial statements” and simply “financial statements”. However, it is argued that this apparent limitation allowed the researcher to grasp the full breadth of fair value’s usefulness under IFRS. This statement is defended based on the respondents’ answers and the similar policies governing entities’ reported results and will be explained in more detail below.

Even though the IFRS principles, particularly surrounding disclosures, are followed more closely in the annual report and the auditors express an opinion on these results; the analysts also use the quarterly numbers to a great extent. Fair value is not only concerned with disclosures but is a measurement tool to which basic principles apply irrespective of when financial information is communicated. In fact, prior research has linked IFRS and quarterly numbers (Duh et al., 2012) as well as IFRS and annual numbers (Landsman et al., 2012). In section 2.1 it was argued why it is appropriate to include the array of methods that companies use to communicate their financial results because the same accounting policies drive the reported numbers.

Respondents to the current study often mixed quarterly and annual numbers. This suggests that analysts use both quarterly and annual numbers. R1 referred to “quarterly numbers”, “audited statements” and “annual reports” throughout the course of the interview. R2 noted how “even in their press releases, they will have a mark-to-market number for ... a lot of the assets.” He highlights the specific value of the audited financial statements when noting “so therefore actually the value added that you get from this is probably going down into some of the footnotes which they may not disclose on the quarterly releases. But I would say from a, from an analyst’s perspective, it would be the press release, earnings releases which are the most valuable or the most important in terms of driving

what we are doing.” R8 noted how “the earnings release and the reported accounts are essentially the same...same things. Although reporting accounts typically only come out annually or bi-annually. . . but you can get results every quarter now ...” Referring to questions concerning the use of the numbers and disclosures in the financial statements as well as the use of press releases or earnings releases, R8 said: “So, based on press releases, earning releases.... Yes, I mean that’s the same... I regard that as all part of the same concept here you know... with numbers and the disclosures...”

The respondents’ answers to the interview questions indicated that the lack of consistency was not an issue. Main themes could still be defined in an attempt to answer the overarching question: Do users of fair value under IFRS perceive fair value to be useful? The consistent elements across all studies were: interviewees analyse(d) financial results under IFRS, interviews focused on fair value and all the interviews focused on the usefulness of fair value.

It is therefore postulated that the inconsistency in exact terminology has not hindered the research. In fact, it allowed for the accentuation of the importance of quarterly numbers as well as audited and reviewed numbers. This potential limitation in the research permitted the impact of IFRS to be considered in its entirety and as such a more holistic view was derived on the usefulness of fair value under IFRS.

3.3.13 Framework of analysis

The aim of the thesis is to establish analysts’ perceptions on the usefulness of fair value and to utilise the qualitative characteristics of useful information as defined by the Conceptual Framework to measure the perceived usefulness. The data under consideration predominantly consists of qualitative, verbatim transcripts of semi-structured interviews. Two of the interview questions employed a Likert scale and one question required the ranking of items. However, interviewees mostly explained their thought processes whilst making Likert scale selections and whilst ranking the data; thus confirming the qualitative focus of the current study.

The next section will develop as follows: Consideration will be given to methods of analysis employed in prior studies that analysed primary qualitative data. This will be followed by a discussion of the method of analysis applied in the current research.

3.3.13.1 Method of analysis employed in prior studies

Only one of the studies that were considered in the literature review was based on interview findings, namely that of PwC (2010). Closely related to this were Chatham et al.'s (2010) analysis of comment letters and the SEC's (2008) study of primary data collected via roundtables and comment letters. Neither PwC (2010) nor the SEC staff (2008) give a clear indication of their method of analysis. What does transpire is a focus on themes. Chatham et al. (2010) utilised content analysis to quantify support for or disagreement with a full fair value approach. They also used codes, derived predominantly from the 1998 Conceptual Framework, to understand the reasons for the agreement or disapproval. Content analysis is a method through which the occurrence of themes can be quantified in order to do statistical calculations (Bryman & Bell, 2011). Seeing as the current study is not focused on statistical inferences but the understanding of views; Chatham et al.'s (2010) content analysis is not a viable option.

PwC (2010) and the SEC (2008) noted main ideas from their research whilst emphasising the diversity of their participants' views. Because the aforementioned studies do not assist in methods of analysis; the literature scope was broadened to consider research on similar data-sets. The foci of the studies that will be considered below are not related to users' views on fair value. However, these studies are deemed relevant in the sense that they clarify available methods to analyse transcribed, semi-structured interviews.

Campbell and Slack (2008, 2011) were interested in analysts' views on various aspects of narrative reporting. They recorded and transcribed their interviews with London-based, sell-side banking analysts. Campbell and Slack (2008: 4) noted that the transcribed data were "content analysed" in an effort to "explore" the importance and usefulness of the different types of narrative disclosures under investigation. This reference to an analysis of content means exactly that and does not indicate content analysis in the "research method" sense of the word. The analysts' views and use of different types of narrative

disclosure were considered through extensive use of excerpts. General themes were highlighted, however it was noted that this was not the main aim of the study. Instead, the researchers hoped to provide material for future research and enhance the existing research in their field. Campbell and Slack (2008: 4) categorise their study as “user-needs analyses”. Campbell and Slack (2011) used the data from the 2008 study to publish an article that focused on environmental reporting specifically. Campbell and Slack (2011: 54-55), in their paper on the “decision-usefulness” of environmental reporting, were interested in three overarching themes, noting that their study adds to their “understanding”. The interview questionnaire was constructed in such a way that each of the three areas was addressed. The analysis is substantiated by means of excerpts. Both studies report results in a qualitative, rather than a precise quantitative way. Outcomes are noted in terms of expressions such as “rarely”, “some”, the “majority”, “generally”, “almost all”, “most”, “all the analysts”, “opinions” that were “mixed”, “consensus overall”, “some”, “a number of” and “very few” (Campbell and Slack, 2008: 17 – 27 and 2011: 59 - 60).

Smith-Lacroix et al. (2012) were interested in understanding how auditors are affected by the use of fair value in their role as auditors. Six questions guided their investigation. They recorded and transcribed their semi-structured interviews with eighteen auditors. Instead of allocating a specific label to their method of analysis, they describe the process. Smith-Lacroix et al. (2012: 41) note how transcripts were read to get “a sense of what were the most important aspects discussed and which themes were more often brought forward”. A “thematic file” was constructed on the second reading. This was done by copying excerpts into a separate file whilst allocating at least one theme to the excerpt. Only the most content-rich excerpts remained after an iterative process of reading the “thematic file” (Smith-Lacroix et al., 2012: 41). Where necessary, the researchers revisited the original transcripts. Smith-Lacroix et al. (2012) used the excerpts to consider their six questions whilst drawing some links to the existing literature. The interview content is discussed in terms of “several excerpts” supporting an argument, “key patterns emerging”, “some interviewees”, an excerpt providing “a sense”, “as one interviewee put(s) it”, “most participants”, “another interviewee”, “a number of interviewees”, “some participants” and “a minority of” as opposed to quantitative, precise terms (Smith-Lacroix et al. , 2012: 43 - 51).

In summary Campbell and Slack (2008, 2011) and Smith-Lacroix et al. (2012) were impacted by the extant literature in their field and driven by a desire to understand or explore. Campbell and Slack's (2008, 2011) and Smith-Lacroix et al.'s (2012) focus on understanding adds an inductive feel. Patton (2002) defines inductivism as a strategy whereby ideas emerge from the data as opposed to having predefined expectations. However, inductivism does not have to exist to the exclusion of deductivism. Qualitative texts note how studies can combine inductivism and deductivism (Bernard & Ryan, 2010; Lewins & Silver, 2007; Patton, 2002). Deduction, according to Patton (2002: 453), is the process whereby an "existing framework" is used to analyse the data. These studies contain elements of deductivism. For instance Campbell and Slack (2008: 15) note how their research questions arose in answer to "calls from" prior research. Campbell and Slack (2011) went into their interviews in an attempt to address three overarching questions and Smith-Lacroix et al. (2012: 40-41) note how data collection was "grounded" in "preliminary thoughts" and refer to an interview guide in order to ensure coverage of certain themes. Themes were identified in the referenced studies and Smith-Lacroix et al. (2012) and Campbell and Slack (2008, 2011) made extensive use of excerpts to prove their findings.

3.3.13.2 Method of analysis employed in the current study

The current research, in line with all the studies considered in the previous section, is concerned with the identification of themes. In this particular instance the understanding is focused on analysts' views concerning the usefulness of fair value under IFRS. As per Smith-Lacroix et al. (2012) and Campbell and Slack (2008, 2011), the aim is to understand. Using Smith-Lacroix et al.'s (2012) method of analysis, the interview content was considered for important or recurring ideas. The existence of a theme is not necessarily dependent on the frequency with which it is mentioned, as this would place the research in the realm of quantitative, content studies. Following Campbell and Slack's (2008, 2011) and Smith-Lacroix et al.'s (2012) examples, themes are defined in terms of what one or some or an imprecise number of analysts noted and underscored by excerpts. Also, following the trend noted in prior research, the analysis combines inductivism and deductivism. Deductivism is evident in the generation of the research instrument; the questions are grounded in prior literature and the Conceptual Framework. The Conceptual

Framework was also used to generate a number of deductive themes. However, an inductivist stance is noted in the sense that the content of the twenty interviews were used to identify additional themes similar to Smith-Lacroix et al. (2012).

Themes were allocated to the interviews in a process called coding. Coding as defined by Miles and Huberman (1994:56) consists of labelling “chunks” of data in order to revisit and make sense of the data. Lewins and Silver (2007: 81) define “qualitative coding” as a process whereby sections of data are tagged as connected to or being prototypes of a higher level “idea, instance, theme or category”. For the current research a “unit of analysis” as defined by Miles and Huberman (1994: 65) consists of phrases, sentences and paragraphs that relate to a particular code. Different codes were applied to the same units where warranted. Not only were codes used to allocate themes to data; Bernard and Ryan’s (2010: 77) “structural” codes were also used. Structural codes are labels to identify more functional data like demographics and topic of discussion.

The data were coded in NVivo (a qualitative analysis software). NVivo allows the generation of nodes (or codes) which can then be allocated to data chunks. The researcher coded all the data in every interview. This was done in an attempt to avoid Ryan et al.’s (2002: 158) “selective plausibility”. This occurs where data are selected because it fits the theory. By coding all data and considering all codes against the research question, the researcher is forced to consider all the facts as opposed to skimming through the data to build a pre-conceived picture.

What follows is a discussion of how codes were generated and how the researcher went about coding the data.

3.3.14 Generation of codes, coding of data and use of codes

The coding process was an iterative process as predicted by Lewins and Silver (2007) and MacQueen et al. (1998) and as experienced by Smith-Lacroix et al. (2012). This iterative process allowed the researcher to establish firm criteria for different codes, to merge codes and to add some additional codes to the code book. This section focuses on how the thematic codes were generated as well as the application of codes to the data. Upon

completion of the coding process there were 58 codes: 21 inductive, 20 deductive and 17 structural. The coded data gave structure to the information and allowed the researcher to answer the research question in its component parts as stated by the research objectives.

In line with Smith-Lacroix et al. (2012) the initial reading of the interview transcripts was used to identify themes. This initial reading occurred whilst listening to every voice recording numerous times and considering whether the transcripts were a true reflection of the interviews. The possible themes were noted in a Word document. The number of new ideas arising from the interviews reduced progressively. From around interview fifteen onwards few new themes arose. This Word document was studied for apparent overlap (in which case themes were merged) and ideas that were peripheral to this study were excluded. The bulk of the inductive codes are the result of the initial reading of all the transcripts coupled with the coding of the first few interviews.

Guest et al. (2006) refer to the point of saturation as the standard cut off in qualitative research. They then define this as the point where no new themes develop from the data that is being analysed. Theoretically this is the argument put forth in defending sample size in qualitative research, however Bryman and Bell (2011) pragmatically notes that time is a limiting factor when it comes to sample size. Patton (2002) underscores Bryman and Bell's (2011) pragmatism when they note that sampling to the point of saturation is an ideal that suits limitless time and resources. However, the fact that very few new ideas arose from around the fifteenth interview onwards, points to theoretical saturation.

The deductive codes were created based on one of this study's objectives, namely to identify the perceived usefulness of fair value if usefulness is defined by the Conceptual Framework's qualitative characteristics. As such the qualitative characteristics and their definitions were used to generate two sets of ten codes each. The first ten³¹ codes relate to usefulness and its characteristics and the other ten codes are exact opposites.

Initially the researcher only coded two interviews in NVivo. The first coded interview was reconsidered in detail and a number of changes ensued. For example, the code "ambiguity" was changed to "distrust" and "uncertainty" to distinguish between a negative

³¹ Ten is the result of the six main qualitative characteristics, as well as a code for usefulness in general and three additional codes for the constituent elements making up faithful representation.

stance and perplexity. It was noted how the participant to the first interview transcript struggled to answer a particular question. A code was introduced to convey this tension. This type of code enabled the researcher to analyse deeper than the obvious.

The researcher went back to the first two interviews and updated the coding following the detailed consideration. The code book was also updated and consideration was given to the line of demarcation between auxiliary codes. This led to some codes being merged. Following this extensive exercise, very few significant changes were made to the code book.

The coding of the data in this study is similar to Smith-Lacroix et al.'s (2012: 41) allocation of excerpts to "analytical themes". Smith-Lacroix et al. (2012) read and condensed their "thematic file" numerous times. This enabled the authors to maintain "only the most meaningful excerpts" in the end. In terms of the current paper; NVivo represents the "thematic file" where codes (or nodes) were allocated to interviews. NVivo facilitated the comparison of different interviews under the same code. It also enabled the researcher to drill down into the original source of coded chunks in order to contextualise the data.

There is not a one to one relationship between codes and themes. Instead the codes were considered in terms of informing the research objectives. Deductive codes were mostly absorbed in the themes surrounding usefulness as defined by the Conceptual Framework and used in answering research objective three: Understanding the users' perceptions of fair value's usefulness as defined by the qualitative characteristics of the Conceptual Framework. A significant portion of the inductive codes led to a detailed understanding of the factors that play a role in the usefulness of fair value and numerous codes were allocated to the one theme: factors impacting usefulness. Structural codes merely aided in checking core elements such as the IFRS focus, fair value focus and financial statement focus. Structural codes were also employed to identify certain sections of the interviews, for example demographics. A number of codes were considered peripheral to the main research objectives and ignored.

Because the interview framework and questions so closely reflect the research objectives, the analysis was often informed by the data for each question as opposed to individual

codes. For example: Research objective three is aimed at understanding users' perceptions of fair value's usefulness as defined by the qualitative characteristics of the Conceptual Framework. This corresponds to section 4 of the interview schedule which requires respondents to note their agreement (on a scale from one to five) that fair value meets each of these characteristics. Respondents mostly talked the interviewer through their thought processes whilst making the selections. As such, thoughts expressed in terms of the specific characteristics were analysed in answer to research objective three. However, these explanations were enriched by other references to the qualitative characteristics occurring throughout the interviews. It was possible to link different sections because individual codes were generated for each of the qualitative characteristics and used throughout the interviews irrespective of the section to which a data chunk belongs. On the other hand, the data that are relevant to research objective two, the understanding of users' views on fair value's usefulness, were more dispersed across the interviews. This necessitated the consideration of a number of codes. However, irrespective of whether research objectives were approached from the angle of the question or the code, the fact that every piece of data was coded with one or a combination of codes prior to formalising the analysis meant that the researcher had an in-depth knowledge of the content of the interviews. Upon completion of a reasonable version of the draft analysis, every code that was applicable to the research objective was drilled into and the content read in order to ensure that material ideas were not overlooked. The researcher went back to the draft and updated this where necessary.

3.3.15 Limitations of the coding process

The iterative process experienced whilst coding and analysing the interviews proves that coding is not an exact science. Bernard and Ryan (2010: 72) note that there is no absolute evidence for the "validity" of identified themes. Bamber and McMeeking (2010) postulate that coding involves some subjectivity. However, following the examples of Campbell and Slack (2008, 2011) and Smith-Lacroix et al. (2012), excerpts are used to substantiate findings and findings are considered in light of existing literature. This will enhance the validity of the findings.

Coding only commenced upon completion of all interviews. This was necessitated by time constraints, constraints on the availability of the transcripts and the fact that most of the interviews were conducted within four months. Miles and Huberman (1994) advise against this as it is a very repetitive task and may result in less precision. This possible limitation was managed by coding over a period of two months to allow enough time for each interview. Reliability and validity checks were also incorporated as per the next section. The benefit of block-coding is the fact that the researcher is very focused on the coding and it enhances internal consistency. The researcher was also not influenced by a coded transcript upon doing interviews, as such ensuring more comparable interviews.

3.3.16 Reliability and validity of the research process

The next section will consider how the methods used in this study introduced reliability and validity to the research process.

3.3.16.1 Reliability and replication

Because of this study's qualitative focus, this research aims for "procedural reliability", whereby another person is able to review the process (Ryan et al., 2002: 155). Miles and Huberman (1994) refer to reliability as a constant process that is conducted with reasonable stability. This section will consider how reliability was achieved throughout the study – particular attention will be given to the generation of audit trails to enable procedural reliability.

All the interviews were audio-recorded and transcribed. Following this the transcribed interviews were checked for being reliable accounts of the actual interviews. Participants were given the chance to validate the reliability of the transcribed account. Another auditable piece of evidence is the code book that the researcher compiled. The codes in the code book were used to code the data in NVivo. The code book for this study incorporates some of MacQueen et al.'s (1998: 32) "basic components": the code name, a description of the code and an example of how the code might be applied within the data-set. Throughout the coding process this code book was a work in progress. This aligns with MacQueen et al.'s (1998) observation that the code book evolves with the analysis.

However, the significant changes occurred during the coding of and on completing the coding for the first two interviews. After this, the creation of new codes was rare. Codes were clearly defined as advocated by Miles and Huberman (1994) in order to enable reproduction and enhance verifiability.

The researcher listened to the interviews whilst coding to enhance the reliability of the coding. This ensured that coded sections were seen in the right context and serves as further confirmation of the reliability of the transcripts. After coding each interview a little summary was made of high level themes that emerged in every interview. This was used as a sense-check upon completion of the write-up process to validate the believability of the identified themes. Bamber and McMeeking (2010) also note how reliability of coding increases when this process is undertaken by one person as opposed to two or more people. The same person conducted the interviews and coded the interviews; therefore the coding is expected to be relatively consistent.

Miles and Huberman (1994: 64) postulate “internal consistency” checks, whereby the same coder codes the same data over a period of time and compares the consistency of code application. Upon coding the fifteenth interview; the coding of the first interview was reconsidered. This was still deemed reasonable and as such the coding passed the “internal consistency” check.

Another reliability check that the interviewer applied was to consider the reliability of the applied codes. This was done through the comparison of unique codes per interview. This was enabled because NVivo indicates the number of “nodes” (or codes) that are allocated to each interview. On average 39 codes were applied per interview. In instances where significantly more or fewer codes were applied the researcher would consider the depth of the interview and whether the interview was exceptionally rich or poor in content compared to other interviews. This would serve as a sense-check as to whether all the codes were identified or possible errors made in the coding process.

Finally, Bryman and Bell (2011) note how the interviewer can exert influence over the respondents and introduce bias. This would impact negatively on reliability. However, upon listening to the interviews, it became apparent that analysts are assertive individuals who will not verbally agree to something unless they truly mean it. This is intuitively

expected based on the nature of their work: they give advice regarding buying, selling or holding stock and they need to form clear, well-articulated opinions to satisfy and influence their clients.

3.3.16.2 Validity of the research

Bryman and Bell (2011: 42, 43) identify validity as the “integrity of the conclusions”, whilst Miles and Huberman (1994: 278) refer to validity as “truth value”. Field (2009) defines validity as the ability of a test to measure that which was intended to be measured. “Measurement validity”, “internal validity” and “external validity” all reside under the broader concept. Maxwell (1992: 285) also introduces the idea of “descriptive validity”.

Measurement validity looks at whether a concept is gauged by the measure that is put in place to assess it (Bryman & Bell, 2011). Face validity of the research instrument was assessed by involving experts at the pre-pilot and pilot stages of the research. Face validity is a sub-category of measurement validity (Bryman & Bell, 2011).

Ryan et al. (2002: 155) note how internal validity is replaced with “contextual validity” in qualitative studies. They define this in terms of credibility of evidence and derived conclusions. Utilising Ryan et al.’s (2002) suggestions, the current research enhanced the credibility of the findings by comparing respondents’ views against one another and also through comparison of the results with those found in prior studies. The credibility of respondents answers were also validated through the use of a control question³².

External validity is concerned with the ability to extrapolate findings (Bryman & Bell, 2011; Maxwell, 1992). This research utilised snowball sampling to a great extent; as such the researcher will not be able to generalise the results (Ryan et al., 2002). However, generalisability was never the aim of the study. Therefore this is not deemed an issue.

Maxwell (1992:285) talks about “descriptive validity”; this is concerned with whether the data are factually correct. Descriptive validity was achieved by audio-recording all the

³² Recall how question 12.6 served as a control question by comparing respondents’ answers concerning the general usefulness of fair value with their prior views.

interviews, transcribing all the interviews and then listening to each interview multiple times whilst reading through the transcripts and correcting any transcription errors. Participants were also given the opportunity to read through the interview transcripts. Of the twenty, seven respondents validated the transcripts to some extent. One respondent required minor changes that were discussed in section 3.3.11.

This concludes the chapter on methodology and methods. In summary, Norreklit et al.'s (2006) constructivist pragmatism is adopted. Epistemologically the study is situated within the interpretative realm. The decision-usefulness theory is utilised to understand analysts' perceptions of fair value's usefulness. This understanding is sought through thematic analysis of semi-structured interviews with twenty analysts in the financial sector. What follows is the data findings and analysis in order to answer the research question: To what extent do users perceive fair value, under IFRS, to be useful?

4 DATA FINDINGS AND DATA ANALYSIS

The current study is aimed at understanding users' views on the usefulness of fair value under IFRS. The focus is on the analyst as a particular user group. Supporting the overarching aim, the objectives of this study are to:

1. Understand analysts' use of fair value under IFRS
2. Explore analysts' views on the usefulness of fair value under IFRS
3. Assess the extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information" and
4. Compare analysts' information needs with their perception of fair value under IFRS.

What follows is a detailed analysis of the themes that emerged from the data in answer to research objectives one to four. Section 4.1 is focused on analysts' use of fair value in an attempt to answer research objective one. Section 4.2 will explore analysts' views on the usefulness of fair value under IFRS in answer to research objective two. Section 4.3 will assess the extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information". Section 4.3 links to research objective three. Finally, section 4.4 includes a comparison between respondents' needs in terms of usefulness and their perceptions concerning fair value's usefulness in answer to research objective four. Recall that the initial coding occurred at the level of the analyst and, where deemed necessary, findings will be reported at sub-sector or individual level.

4.1 The use of fair value under IFRS

The first research objective was aimed at exploring analysts' use of fair value. All the analysts confirmed that they have some use for fair value under IFRS. The fact that analysts use the fair value information was interpreted as an indication of usefulness. This deduction is tied to the Conceptual Framework's objective for financial reporting, namely financial information should be useful in making economic decisions (IASB, 2010b). In this sense a theme arose that fair value is useful as the interviewed analysts use fair values

when making decisions or when analysing an entity. This analysis will in turn impact advice that feeds investment decisions.

Even though analysts use the fair value under IFRS, a strong theme arose that fair value under IFRS is not analysts' main focus. A few respondents gave the impression that they use fair value because it is a measurement basis in financial statements. This begs the question whether fair value is seen as useful in its own right. However, a number of respondents postulated that fair value gives a fairer reflection of true value. Uses of fair value under IFRS include a consideration of the risks introduced or hedged through fair value usage, use of fair values in model-inputs, analysing the volatility introduced by fair value, identification of the type of instrument being fair valued, identification of the fair value designation either through the income statement or equity and a consideration of the company's valuation methodology. Valuation is also directly linked to banks' capital which is closely monitored by the regulator.

Analysts who hold banks in their portfolios tend to use the disclosures around the levels of fair values more than other analysts. This is because banks are exposed to the riskier, modelled fair valued instruments and the analysts need to be aware of the relative exposure to these kinds of instruments. Modelled fair values are likelier to be incorrectly valued because the prices for these instruments are not actively traded.

In answer to research objective one, analysts' have different uses for fair value. However, fair value under IFRS is used by all the analysts and therefore seen as useful measured against the Conceptual Framework's objective for financial information.

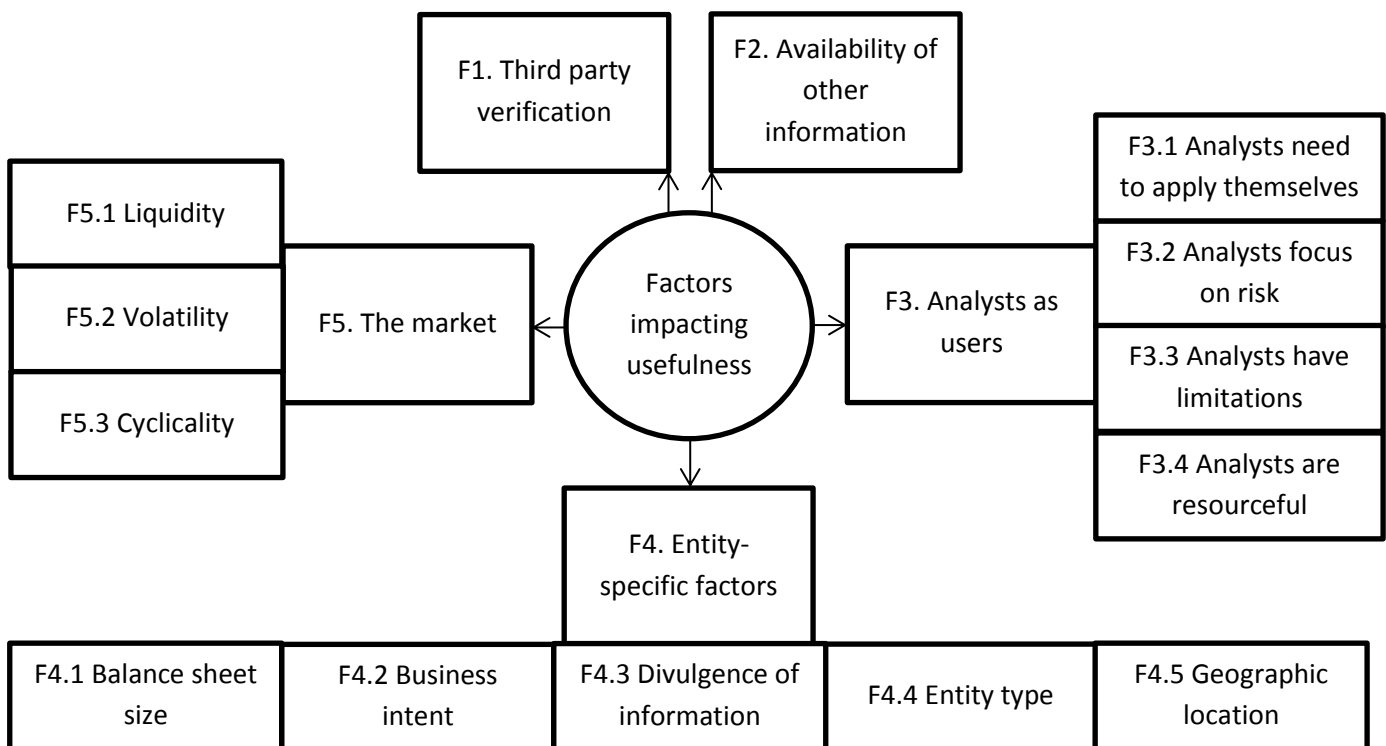
4.2 Analysts' views on the usefulness of fair value under IFRS

This section explores analysts' views on the usefulness of fair value under IFRS. As such, this focuses on research objective two. Even though research objective two was defined as understanding analysts' views concerning the usefulness of fair value under IFRS, it became apparent that such an understanding is wrought with "ifs and buts". Usefulness of fair value is neither an independent nor an absolute concept. Instead usefulness is impacted by third party verification, usefulness of fair value under IFRS is achieved in

combination with other information, the analysts contribute to usefulness, usefulness is linked to entity-specific factors and market factors play a role in fair value's perceived usefulness. As such, research objective two will be considered in light of factors that impact fair value's usefulness as opposed to giving a definitive answer regarding fair value's perceived usefulness.

The diagram below is a visualisation of five main³³ factors that impact the usefulness of fair value with three of the factors broken down into sub-factors. These factors were inductively derived from the primary data. This section will be structured in the same order as the diagram. The findings will be enriched through the extensive use of excerpts.

Figure 8 - Factors impacting the perceived usefulness of fair value



³³ Note that section 4.3 is devoted to the qualitative characteristics of useful information. Therefore, even though things like the accuracy of the measure or the relevance of the information impact on fair value's perceived usefulness, these qualitative characteristics are considered separately in section 4.3.

4.2.1 Third party verification

The first factor that impacts usefulness is the fact that fair value under IFRS is verified by an independent third party (indicated by F1 in figure 8). Numerous analysts mentioned auditors and their role in verifying the financial statements. When it comes to banks, the regulator also plays an important role in providing assurance. This dependence on third parties is necessitated by a lack of transparency from the “outside”. However, even though analysts need auditors to verify the numbers, a number of analysts voiced their scepticism regarding the audit process when it comes to modelled fair values.

The following quotes articulate analysts’ dependence on the audit process:

R5: “...I mean, we will not be able to verify. So we understand, you know, auditors are supposed to do that.”

R17: “I probably wouldn’t go to the effort of re-checking every single asset in a company. As long as there’s an accountant that’s signed it off. If something looks very funny, I’ll check it out. . .”

It became apparent that people on the “outside”, such as analysts, do not get all the information they need to verify the numbers and as such they need to rely on the “inside” knowledge of auditors and regulators.

R8: “[I]t’s very difficult to second guess that from outside...we trust management to give us a fair value and the auditors to do that, and regulators.”

R10: “[F]rom the outside there’s no way of telling whether they’re correct on their level three valuations or not.”

However, numerous excerpts prove that analysts are sceptical of auditors’ opinions. This scepticism is focused on modelled fair values that are not transparent and easily verifiable.

R1, when thinking about modelled fair values, noted:

“[P]eople don’t have a great deal of trust in banks and their auditors’ ability to value these products.”

R3: “... I am not accusing auditors of making things up... it’s perfectly possible for two people to come up with a very, very different valuation in complete faith. Both of them come up with a completely different valuation for exactly the same instrument, because you got to come to a view on what the cash flows are attached to it, you got to come to a view as to what the discount rate is that you should be using ...”

R14: “IFRS places quite a strong burden on them [auditors] because the information they have is confidential to all market participants and...arguably, they’re new standards so the auditors don’t necessarily have the capabilities to do it. And with something as sensitive as this...I mean we’re not talking about accounting information here and checking the numbers are right, we’re looking at market information and understanding the way the capital markets work, so. . .”

This sub-section explored the theme that analysts depend on auditors and regulators to verify the “inside” information and as such improve the usefulness of the fair value numbers. However, this process is viewed with scepticism if it relates to modelled fair values.

4.2.2 Availability of other information

The second factor that impacts usefulness is the fact that the fair valued numbers under IFRS are used in combination with other information (refer to F2 in figure 8). As such, a combined usefulness transpires. The analysts in this study use an array of information in their decision making. A set of financial statements is but one source. The combined usefulness is not only relevant to fair value, but the financial statement information in general. Analysts to the current study use additional sources such as MCEV³⁴ (Market Consistent Embedded Value) accounts, disclosures under Basel³⁵ and market indicators.

What follows are some quotes to underscore this theme of combined usefulness:

R3: “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: kind of discussions with managements, 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 ...”

R8: “[A]nalysts are looking increasingly at those [Basel] Pillar III³⁶ disclosures for things that are not showing in the normal reporting accounts...”

³⁴ Diers et al. (2012) define MCEV as the sum of the fair value of the assets that cover shareholder’s equity plus the present value of expected future profits from existing business for an insurer.

³⁵ Basel refers to regulation issued by the Basel committee. The Basel committee is involved in supervision within the banking sector and issues standards in relation to capital adequacy (BIS, 2012).

³⁶ Pillar III relates to disclosures that are needed under Basel regulation.

R17: "... for life insurance, there's an additional set of accounts called the MCV³⁷ accounts ... and that will be used to inform ... the life business as well, but it's in parallel with, rather than in replacement of, the IFRS accounts."

This sub-section considered the fact that information under IFRS, of which fair value forms part, is not used independently. Instead its usefulness is enhanced by combining the IFRS accounts with other sources to satisfy analysts' information needs.

4.2.3 Analysts contribute to usefulness

The analysts and their interaction with the information constitute the third factor that impacts fair value's usefulness (see F3 in figure 8). Some interviewees conveyed the idea that usefulness of fair value is not only dependent on the reported numbers and disclosures, but also the fastidiousness with which the information is used. Analysts are encumbered by complexity, time and resources. However, their resourcefulness might increase fair valued information's usefulness. What follows is a closer look at the four sub-factors residing under analysts' contribution to usefulness: analysts need to apply themselves, analysts are naturally focused on risk, analysts have limitations and analysts' resourcefulness might increase fair value's usefulness (refer to F3.1 - F3.4 in figure 8).

4.2.3.1 Analysts need to apply themselves

Some analysts argued how important it is that users apply themselves and use the fair value information responsibly. Therefore the perceived usefulness is impacted by users and in this case, analysts specifically.

The following excerpts highlight the above:

R5: "[U]nderstandability ... if one is assuming that the users of financial statements are sophisticated that shouldn't be the most important thing."

R6: "[Y]ou can gain a far better understanding in just about anything you like ... provided you've been a responsible user of information at the time."

³⁷ This is the same as MCEV defined in footnote 36.

R8: “I would always be in favour of seeing more [disclosures] ... but then trusting investors to recognise what they’re seeing and, obviously, provide sufficient levels of management education or guidance around that, you know.”

R17: “Like once I understand it (which is something that might take me a while if it’s really complex, but once I understand it) it will be hopefully the same every time and therefore it won’t be slow. Then if it’s difficult to understand I’ll be able to . . . understand it second time round.”

4.2.3.2 Analysts focus on riskier areas

Not only does analysts’ application of themselves impact usefulness, but also their natural focus on areas of risk. When fair value is deemed risky, analysts will spend more time on it and it will be useful to have the information. In terms of fair value, this tendency to focus on riskier areas is evident amongst analysts who analyse banks. This is because banks hold the riskier, modelled instruments within portfolios consisting of varied levels of risk. Risk is often measured in terms of modelled fair values as a proportion of equity and/or capital. Moves between the different levels of fair value are also monitored.

The following excerpts demonstrate analysts’ focus on risk:

R1: “[P]eople don’t like the concept of financials holding large portfolios of assets that aren’t very easy to mark.”

R3: “The only thing we would do mathematically, I think, is to say: well, level three assets as a multiple of their capital base is x, or whatever, and with this bank over here it’s three x ... and actually the three x bank we would be more worried about.”

R5: “And therefore, if a company had a particularly high dependence on level three assets (that had been growing) we would certainly make note of that as a potential source of risk to the reported capital strength and profits of the company.”

4.2.3.3 Analysts have limitations

The third sub-factor under “analysts’ contribution to usefulness” explores the fact that analysts have limitations. They are limited by time, their access to information is restricted to what is available to the “outside” world and they have limited resources. Therefore analysts might find certain information on fair value useful simply because it suits their time, access to information and resources. Alternatively, certain information could be seen as less useful simply because of users’ limitations.

The following quotes provide evidence of analysts' limitations. For example:

R1, when asked whether he would like more information about the models in order to verify the numbers replied:

“[D]o I have the time now to look through that? Probably not...”

R8 “...I would say we don't, we don't sort of try to second guess what mark-to-model or mark to make-believe numbers might be...But, you know, it's very difficult to second guess that from outside...”

R19: “... the way this job is nowadays you're expected to cover more and more because there's still the requirement for all the companies to be covered but there's less analysts who are being employed to cover them. So workload is increasing... unfortunately.”

This section explored the fact that analysts have limitations. These include time-constraints, limited access to information and resource-constraints. However, the next section will consider how analysts' resourcefulness might increase fair value's actual usefulness.

4.2.3.4 Analysts are resourceful

The fourth sub-factor under analysts' contribution to usefulness acknowledges that analysts' resourcefulness might enhance the usefulness of fair value under IFRS. Some analysts stated that reported values are often a starting point and would lead to them contacting Investor Relations. All the analysts use other information sources, over and above financial statements, in their decision making or to give advice. Analysts are also able to look through the given information and assess the actual situation.

The following quotes underpin this idea of analysts' resourcefulness:

R8: “But I think, you know, one has to sort of interpret the accounting treatment and... something's wrong; we'd look through in terms of accounting treatment.”

R11: “I would tend to just very quickly pick up the phone and speak to management in that scenario... or not even to management to IR [Investor Relations]... rather than look at the disclosures in, in that case. . .”

R20: “I'd need to know, you know, all about the industry and management say and ... economic environment”.

In summary, this section explored a usefulness factor, namely the role that the analysts play in fair value's usefulness, by looking at four sub-factors. From the interviews it transpired that analysts need to apply themselves for the information to be useful and analysts' risk focus impact which fair value information they perceive as useful. Analysts' use of fair value is limited and directed by the fact that they are "outside" the entity they report on, time-constraints and limited resources. Analysts' resourcefulness possibly enhances their perception of fair value's usefulness.

4.2.4 Entity-specific factors impact usefulness

This section will focus on five entity-specific factors impacting analysts' perceptions of the usefulness of fair value (refer to F4.1 - F4.5 in figure 8). These sub-factors relate to the size of the entity's balance sheet, the business intent, the entity's divulgence of information, the type of entity and the geographic location of the entity. What follows is a consideration of each of these entity-specific sub-factors that impact the perceived usefulness of fair value.

4.2.4.1 Balance sheet size

The sheer size of entities' balance sheets impacts how analysts use the fair valued instruments and therefore the perceived usefulness. A number of analysts noted how their use of fair value is more high-level than in depth.

The following quotes demonstrate the impact of balance sheet size on the perceived usefulness:

R3, when asked if he would have liked enough information to model and check fair values, noted:

"I don't think it is practical though...I don't think it's possible because I mean there'll be hundreds of thousands maybe even millions of these instruments, right? So there is no way that I could ever...or anybody realistically would be able to copy that or emulate it ...or repeat it...I don't think it's actually possible..."

R6: "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. . ."

R19: “Because there’s so many things that are involved in these investment portfolios that they would be providing me with thousands of pages of detail, if they were to really give me something that was clear and concise...”

4.2.4.2 Business intent

The second entity-specific factor relates to the entity’s business intent. A few analysts linked the usefulness of fair value to business intent. Fair value is useful if the entity’s intent is to trade the instrument. However, one analyst did fault the current mixed-methods balance sheet. This suggests that he chooses consistency in valuation method rather than a correlation between valuation and intent.

The following quotes evidence the idea that some analysts support the usefulness of fair value if this reflects the entity’s intent to sell or trade.

R5: “So, you know, a bank like A³⁸ (which uses relatively little fair value accounting) would actually be better off using less. Because the way that they run the bank, it isn’t really a fair value driven institution, it’s a deposit driven company that thinks about investing those deposits in an appropriate way... and as a result is very much a banking book business and an accrual based business...So, for the same portfolio of assets, if you have a poor funding structure and might have to sell that book the fair value’s of great interest to us. If you have a strong funding structure and you have no intention of selling it and won’t be forced to sell it; then actually the fair value is of passing interest at best and we think the book value of the assets will be much more relevant.”

R19: “[Y]ou have to bear in mind that a company might be measured at fair value but will be holding something to maturity, so the values of it will be fluctuating. . . sort of from an accounting perspective, but as far as they’re concerned nothing’s actually changed because they’re not looking to sell it anyway.”

In summary, fair value is useful if used to measure traded instruments or if an entity’s lack of liquidity could force it to sell the instruments. However, fair value is less useful if entities intend to hold instruments for the long term and are actually able to hold the instruments for the long term.

4.2.4.3 Divulgence of information

The third entity-specific factor relates to how forthcoming entities are with information. In

³⁸ The name of the bank was replaced in the interest of confidentiality.

general the availability of information is useful, but there is a fine line between useful and an information-overload.

The next few quotes indicate the usefulness of having information available.

R1, when talking about modelled fair values noted:

“[G]iven the extent of suspicion that surrounds financial companies and their, you know, their audited statements... It probably wouldn’t be a bad thing for, you know, investor ... sentiment, investor confidence in accounts to have more information ... so that people can check for themselves”.

R8: “Well, we’d always like more disclosures as analysts and investors...”

However, too much disclosure can also shift the balance from useful to useless due to information overload. This idea is evidenced by the following excerpts:

R6: “Because it would just be so big that it would cease to be useful and I think we’ve got to really guard against that when we think about disclosure going forward...is to say: How do we keep this such that people will actually pick it up?”

R13: “It’s a little bit of a trade-off though. Because, you know, if they actually give us the disclosure then we have another 50 pages to read.”

4.2.4.4 Entity type

The fourth entity-specific factor looks at the type of entity. Whether fair value information is useful, and the type of fair value information that will be useful, is dependent on whether the entities have large portfolios of fair valued instruments that are sensitive to changes in market conditions. This exposure to fair valued instruments seems to be linked to entity type.

The following quotes evidence the impact entity type has on the usefulness of fair value:

R7, when asked how he uses fair value disclosures noted:

“With investment banks it’s more important because it’s more an investment bank related disclosure than a commercial bank.”

R18, when asked about his use of the fair value numbers and disclosures noted:

“Yes, I would say particularly on the asset side I would definitely look at the fair value, yes...I mean for insurance companies, because they’re financial institutions, obviously a large portion of their assets are financial instruments.”

4.2.4.5 Geographic location

The fifth entity-specific factor relates to the entity's geographic location. A number of analysts highlighted the fact that different countries report in different ways. It also transpired that some countries' valuations are seen as more trustworthy than others³⁹. As such the perceived usefulness of the fair valued information will be impacted by the geographic location of the entity.

In summary, this section focused on entity-specific factors that impact usefulness. These entity-specific factors can be broken down into sub-factors. The sheer volume of entities' balance sheets results in analysts taking a high-level interest in the fair value information, fair value is useful if it reflects a business intent or need to trade or sell the instruments, the extent to which entities divulge information contributes to the perceived usefulness, fair value is useful if the type of entity is exposed to large fair valued portfolios and the geographic location of the entity plays a part in the perceived usefulness of the fair valued numbers.

4.2.5 Usefulness is impacted by the market

The final factor that plays a role in the perceived usefulness of fair value relates to the market's impact on fair value (see F5). This factor is divided into liquidity, volatility and cyclicity (see factors F5.1 – F5.3 in figure 8). What follows is a consideration of these sub-factors on the perceived usefulness of fair value under IFRS.

4.2.5.1 Liquidity

The first market-related factor that impacts the usefulness of fair value is liquidity: liquidity of both the market and the fair valued instrument. Fair value has less use if the instrument is illiquid and if markets are illiquid market prices are less useful. Overall respondents are wary of level three instruments and a number of the respondents' uncertainty and distrust extend to level two instruments. This distrust of modelled fair values indicates that liquid, readily traded instruments are more useful. This factor is

³⁹ The specific quotes were omitted in the interest of confidentiality.

prevalent amongst analysts who analyse banks as they are the ones who are greatly exposed to the more illiquid portfolios.

What follows are a number of extracts to underscore the above:

R1, when thinking about modelled fair values, noted:

“[P]articularly looking at banks...I would kind of look at fair value and say, I don’t want a large proportion of the assets to be fair value and I wouldn’t want that to be a large proportion of equity, say, or very large relative to liquid, more liquid assets.”

R3: “[Y]ou want to see as few as possible really at level three....and level two in a way.”

R15: “... any modelling I guess you’ve got to view with some degree of scepticism.”

R18: “[I]n some periods of time when markets are stressed or there’s poor liquidity such as like 2008, 2009... it might be a bit on the aggressive side in terms of how you value assets... but most of the time it’s a, you know, reasonable reflection I think.”

However, one analyst put an interesting perspective on liquidity when highlighting the fact that liquidity is not purely dependent on the market but an artificial construct:

R12: “But mark-to-market isn’t truth, either, in a way...mark-to-market is determined by the amount of liquidity the central banks are pumping in.”

4.2.5.2 Volatility

The second market-related factor relates to the market’s volatility. The fact that fair value is so pro-cyclical, and therefore follows the volatile markets, makes it less useful to analysts.

The below highlight market volatility’s negative impact on fair value’s perceived usefulness:

R2: “You’re just getting too much volatility and that can be harmful for stock prices because you are getting very wild swings in the PnL which, I don’t know, it’s not a real movement.”

R7: “Because I think... where you see volatile and choppy markets and you see, you know, falling markets... I think you will see less faith in fair value...”

4.2.5.3 Cyclicalit

The final market-specific factor that impacts the usefulness of fair value relates to the market's cycles. When the market is at the bottom of a cycle analysts focus more on fair values of illiquid instruments and make adjustments to possibly wrong valuations. Therefore the availability of information on fair value is more useful. This theme is prevalent amongst analysts who hold banks in their portfolios as the credit crisis had a significant impact on banks due to sizeable investments in modelled and less liquid instruments. These investments, in more risky instruments, also impacted banks' regulatory capital which in turn affected their liquidity and solvency.

A number of quotes confirm that the use and usefulness of fair value information is impacted by the market's position within a cycle:

R3, when asked whether they adjust fair value numbers, noted:

"[I]t was certainly happening a lot a couple of years ago when there were certain asset classes that were kind of blowing up at the time."

R6: "Through the crisis we would spend all day looking at perceptions around what cumulative losses should be on fair value accounted assets."

R12: "One thing that I used to focus on... not so much now, is the move of level two assets into level three."

R13, when asked about his use of fair value numbers noted:

"Well, I mean it's maybe less relevant right now because, to some extent, a lot of the toxic assets (CDOs and level three assets) that were really causing problems have improved in terms of valuation. But during the middle of the financial crisis sometimes they'd have CDOs or sub-primes on the balance sheet and you know that the market value of these things has shifted a lot during the period . . . so you would tend to take their fair value, at a particular point in time, and then look at how the market has behaved since then."

In summary, this sub-section considered how fair value information's usefulness is impacted by the market. The three market factors that were identified are: liquidity, volatility and cyclicalit. The fair value numbers are less useful and regarded with more scepticism when the market is illiquid and when the instruments are not readily traded. Fair value's pro-cyclical nature makes it less useful when markets are volatile. This is because the fair values introduce instability to the financial statement numbers. Analysts tend to spend more time on fair values, and particularly modelled fair values, when the

market is at the trough of an economic cycle. Analysts who have banks in their portfolios are mostly affected by liquidity and cyclicalities as banks are exposed to relatively large portfolios of less liquid, modelled fair values.

4.2.6 Summary

Research objective two was aimed at exploring analysts' perceptions regarding the usefulness of fair value under IFRS. The analysis of the data does not lead to an absolute answer. However, analysts' perceptions concerning the usefulness of fair value under IFRS vary dependent on certain factors. These factors are summarised as: auditors and regulators impact on fair value's usefulness; the use of other information in combination with the fair values under IFRS influence usefulness; users and the way in which they interact with the information play a role in the usefulness of fair values; the entity influences the perceived usefulness of reported fair values and the market has an effect on fair value's usefulness.

4.3 The extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information"

This section focuses on users' perceptions concerning the usefulness of fair value under each of the six qualitative characteristics that the Conceptual Framework identified. As such, this section addresses research objective three. Recall that the qualitative characteristics are: faithful representation (consisting of neutrality, completeness and accuracy), comparability, verifiability, timeliness, understandability and relevance.

Analysts' perceptions regarding usefulness as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information" were measured with the use of a Likert scale. However, the aggregate quantitative results were mostly inconclusive (hovering around neutral), varied greatly between participants and were devoid of deeper meaning because these were simply points on a scale. This led to more weight being attributed to the content-rich explanations accompanying the Likert scale selections and the data being analysed qualitatively.

What follows is an analysis of analysts' perceptions concerning the extent to which fair value meets each of the Conceptual Framework's qualitative characteristics. Not only are the narratives in relation to the Likert scale selections included in this qualitative analysis, but also other direct or indirect references to the characteristics that occurred throughout the interviews. The analysis only differentiated between the analysts' sub-sectors where deemed necessary.

4.3.1 Faithful representation

The analysts' comments throughout the interviews indicated that there was some distrust regarding fair values being faithfully represented. However this distrust is mostly focused on level two and level three instruments and volatile markets. Analysts' suspicions are also fuelled by the credit crisis; the credit crisis proved that reality can be very different to perceptions. The persistent issues with countries such as Greece also raised concerns about instruments, such as government debt that, historically, were easy to value and verify. All the analysts who spoke about fair valuation of own debt considered this to not be a faithful representation. From an insurance perspective it was noted how equity is inflated in the current low-yield environment because assets are fair valued and liabilities are not. IFRS also does not faithfully report the situation for life-insurers because it reflects a quarter or a year as opposed to the long-term view concerning locked-in profits. What follows is a closer look at each of the three constituents that make up faithful representation, namely: neutrality, completeness and accuracy. The summary of analysts' views will be enriched through the use of quotes.

4.3.1.1 Neutrality

Neutrality relates to freeness from any form of bias (IASB, 2010b). A strong theme arose that liquid assets are seen as more neutral, whereas modelled fair values are open to manipulation.

Insurance analysts were generally more positive about fair value's neutrality because the majority of their assets are marked-to-market and not open to interpretation. However, it

was noted that reserves are open to manipulation and that the mismatch between assets (held at fair value) and liabilities (not held at fair value) distorts the balance sheet.

The quotes below demonstrate the susceptibility of modelled fair values to manipulation:

R7: “Again that would depend on how much of level one, level two and level three there is. So, if I see a higher level three then I’d say biased...”

R8: “[L]evel one assets, where we know that there’s a market... I would say that there’s no hidden agenda there. So I would generally strongly agree with that... I think, as I say, when it’s marked to make-believe then it’s a bit different.”

R20: “[I]t would be, you know, could be aggressive. So I disagree because people can mark-to-model and be quite aggressive in their evaluations...”

4.3.1.2 Completeness

Completeness relates to the extent to which analysts deem fair value information, in financial reports, to be sufficient and to represent the economic reality (IASB, 2010b). A theme arose that fair value under IFRS suffers from limitations. Limitations include inconsistent levels of disclosures amongst companies, limited information on how fair values were struck and the absence of a sensitivity analysis. Some analysts mentioned that the credit crisis proved that you do not really get the complete picture until it is too late.

Comments that accentuate these limitations include:

R1: “In terms of necessary information...it’s definitely improved a lot. I’d probably put – I mean it; it varies a lot by company. I think the thing; one of the things with IFRS is often...in annual reports, there is such a variety of levels of disclosure”.

R2: “[M]ore clarity or more assistance in which things are trading, which things are available for sale may help.”

R3: “At the moment we get a lot of really high level information...We get a big roster of which parts of the balance sheet are classified in levels one, two and three...actually, that does not tell me anything, really, and I think what would be more useful would be some sort of sensitivity analysis.”

R13: “But I think they could go a little bit further in terms of, you know, just give us an idea of what inputs they’re actually putting into the models and what assumptions they’re making. . .”

R18: “There could be a bit more disclosure in terms of, I guess, creating more of a grid pattern and having geographic or sovereign exposure . . .”

4.3.1.3 Accuracy

The IASB (2010b: QC15) views accuracy as a description that is without “errors or omissions” as well as the selection and application of a process without any errors. Accuracy is not seen as “perfectly accurate in all respects”. Numerous analysts felt that fair value is not that accurate, however possible inaccuracies reside with modelled fair values. The fact that a number of analysts mentioned adjustments to fair value during the credit crisis indicates a correlation between illiquidity and inaccuracy. Other factors that negatively impact on the perceived accuracy are limited transparency that prohibits the confirmation of either accuracy or inaccuracy and the credit crisis that raised suspicions as to whether beliefs of accuracy are warranted.

A number of excerpts demonstrate analysts’ issues with modelled fair value’s accuracy:

R1, when thinking about modelled fair values, noted:

“Whether I look at it to assess the number and whether I believe the number I’m given...often not.”

R14: “Fair value measurement and disclosures are clear and accurate? I would disagree with that. And again...a lot of this has to do with the subjective nature of how they classify it. I think at level one there’s probably not too much you can fluff about with because you do have a clear market benchmark and you just do the maths and the number that pops out is your difference. But, at level two and level three... I think it does open itself up to a fair amount of interpretation”.

R20: “Often these numbers are very... they’re not quite as specific as you might think and there can be a huge sensitivity to assumptions behind them.”

The following demonstrates the fact that fair value can be perceived as inaccurate in illiquid markets:

R8: “And some of the indices that could be used... in the derivatives market, they were actually... the illiquidity that was around and the fact that so many people were more trying to hedge exposure rather than take exposure through them, meant that they’d...you’d get a false price in many respects. So I think that the problem is: many of the assets ... it isn’t easy to derive at a useful, meaningful fair value...”

The following evidences the scepticism that follows the failures during the credit crisis:

R2: “And again, you know, you kind of think what’s happened in the companies that have collapsed. Clearly they weren’t that, well they weren’t, obviously, accurate. But maybe that wasn’t...maybe you couldn’t...maybe at that point of time it was the best they could do. But... they clearly weren’t accurate because if they were then they would have foreseen some of the stuff which happened.”

4.3.2 Comparability

Comparability is concerned with comparisons across companies and over time (IASB, 2010b). Even though some respondents agreed that the use of fair values enables comparability, it was clear that there are numerous issues with the comparability achieved through reported fair values. Variations were mentioned in both how items are classified and what is being disclosed. The fact that financial statements aggregate data also limits the ability to compare.

The extracts below highlight some of the perceived limitations.

R2: “... how much confidence do we have that, let’s say, C⁴⁰ is treating something as a trading and D is treating it as available for sale or E... you know, so maybe some consistency around that may help.”

R4: “I would look at the composure or the composition of those movements [gains] . . . by asset class, if they give that, some companies don’t give that disclosure.”

R14: “[T]hose fair value inputs that are subjective can add up . . . which could give you an answer that’s materially different between institutions”.

R15: “Because the classification of assets and liabilities are different bank by bank, you know, who fair values what.”

4.3.3 Verifiability

Verifiability is seen as the general agreement amongst a number of knowledgeable, independent people that a particular item is faithfully represented (IASB, 2010b). Generally analysts, except for insurance analysts, believe that reported fair values are not verifiable. Insurance companies’ fair valued assets are mostly marked-to-market, hence the prices are observable and verifiable. Identified themes include the fact that verification

⁴⁰ Company names were replaced by generic letters in the interest of confidentiality.

is not possible when instruments are modelled. Financial statements are also on too high a level to allow verification of the detail. However, numerous analysts gave the impression that they were not interested in verifying the numbers and that auditors are supposed to fulfil this function. Therefore the limited verifiability is not seen as an issue.

The following excerpts demonstrate the above:

R2: “I don’t think you can verify it any way... I think as long as you have reasonable faith that it’s actually materially correct, I think that’s probably enough.”

R3: “Fair value information is verifiable... ‘disagree’...it partly is, it partly isn’t....level one stuff is, the level three stuff absolutely isn’t.”

R8: “But in many cases it’s not verifiable at all, particularly mark-to-model”.

R14: “Fair value information is verifiable? I’d disagree with that. I think some of it is, but...because it only makes up a couple of line items in a very detailed financial statement and the underlying information that goes into making up those figures is often confidential...I don’t think it’s readily verifiable.”

R19: “[O]n the basis that I’m looking at insurance companies which generally tend to be investing in tradable, safe things, I would say that fair value information is broadly, I agree, verifiable.”

4.3.4 Timely enough to be useful

Recall that the current study, in line with the IASB (2010b: OB2), links usefulness to “making decisions”. Timeliness is linked to usefulness in the sense that the IASB (2010b, QC29) defines timeliness as the availability of information “in time to be capable of influencing” decisions. Therefore, the fact that a large number of analysts are of the opinion that fair values under IFRS are generally useful in making decisions, suggests that the reported fair value information is timely enough.

However, some analysts noted issues with the frequency of fair value reporting. The volatility of fair values reduces the usefulness of quarterly fair value reporting. Notably, insurance analysts did not seem to have an issue with the timeliness of financial results. In fact, one insurance analyst opted for less frequent formal reporting. This difference between insurance analysts and particularly banks analysts’ thinking can be explained by the nature of the businesses. Insurance entities, particularly life insurance, are focused on

the longer term view. On the other hand; the capital requirements imposed on banks necessitate daily balance sheet strength.

Below are quotes that underscore analysts' issues with the timeliness of fair value reporting:

R1: "[G]iven that you may only get these numbers quarterly and the market moves so much and people are so concerned now with almost daily balance sheet strength and liquidity. It's difficult to have too much confidence in the numbers you are given."

R13: "Because, you know, if there's a huge move then you kind of want to know. To some extent they don't want you to know what's going on because during the middle of a period there could be a lot of dislocation. . . and they might be uncomfortable telling you what the fair values are. But then, you know, by the end of the period everything's improved again."

4.3.5 Understandability

The IASB (2010b: QC30) notes that the classification, characterisation and presentation of information in a clear and concise manner "makes it understandable". A number of analysts to this study noted that the disclosures on fair value have improved and some analysts were content with the level of understandability. However, the comments regarding the clarity and conciseness indicate a general need for improvement.

The extracts below evidence that the understandability of fair value needs to improve:

R2: "Clear and concise? I think, yeah, it's reasonably clear. Where I would say it's not so clear is, obviously, in terms of how you designate certain things...for treatment of fair value".

R3: "I think the fair valuing process itself is not clear because we don't know how it's done in most cases. The way it's presented, i.e. these are your level ones, your level twos and your level threes, has come a long way in the last three or four years...So, I would say the information itself is clear and concise, yes, the methodology behind that information is not."

R7: "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."

R8: "[B]ut is the requirements for what they disclose and therefore how they disclose it... yes, it is better than nothing, but...it's not always clear and concise..."

R14: “[T]he disclosures can be a bit mind-boggling and as they’re evolving they’re becoming more user-friendly.”

R15: “[T]hey won’t really talk, you know, tell you exactly what’s driving the fair values in, sort of, plain language that you could communicate to your average investor.”

R19: “[T]here are so many things that are involved in these investment portfolios that they would be providing me with thousands of pages of detail, if they were to really give me something that was clear and concise”.

4.3.6 Relevance

The IASB (2010b: QC6 and QC7) defines relevance in two ways. On the one hand relevant information is seen as “capable of making a difference in the decisions made by users”. On the other hand, information is then deemed to possess the aforementioned capability “if it has predictive value, confirmatory value or both”. This idea of “capable of making a difference in the decisions made by users” is closely related to “the objective of general purpose financial reporting” (IASB, 2010b: OB2). For purposes of this research general usefulness (in terms of aiding decision making) was discussed under section 4.3.4. The more specific use of relevant information, usage in predictions and/or confirmations will be considered in this section.

The overall feeling is that fair value is relevant if relevance is measured using the more stringent definition of use in predictions and/or confirmations as opposed to general usefulness. Coupling this with the fact that fair value is generally relevant (in terms of impacting decisions), fair value’s relevance is undisputed. Predictive and confirmatory uses include inputs to models, using disclosures to understand future movements and confirmation of expectations. However, some analysts were strongly opposed to the notion that fair value could be used to predict and/or confirm, noting that you cannot predict the outcome from trading and fair value is a reflection of reality as opposed to a tool to forecast.

Quotes from analysts who agree fair value’s use for prediction and/or confirmation include:

R2: “Yeah, I suppose it...confirm expectations probably more so than to make predictions. 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.”

R7: “The fair value at balance sheets dates will be a point in time. So you’ll need to start off adjusting that to see how much your PnL’s got to move... you know, when you do quarterly reporting or when you forecast forward.”

R11, when talking about fair value measurements and disclosures noted:

“[I]t’s something that we would use... to analyse historical trends and be aware of future evolution in trends. . .”

Quotes from analysts who perceive fair value to not have predictive and/or confirmatory value include:

R6: “Use of fair value and the disclosure notes around it assist me to confirm expectations and make predictions? I’d disagree with that insofar as my typical prediction is EPS. Nowhere in the model does a view on forward value changes in fair value assets feature in prediction of earnings”.

R12: “I don’t think fair value is about making predictions. It’s about trying to reflect reality as it is.”

4.3.7 Summary

Overall fair value is more useful than not. However, fair values can be manipulated, particularly where models are used. Generally analysts require more information from reported fair values; therefore issues are identified with the completeness of the offering. Modelled fair values are not viewed as particularly accurate and the level of inaccuracy increases when markets are illiquid. Even though some level of comparability is enabled through reported fair values, there are differences in both how items are classified and what is being disclosed. A large number of analysts, apart from insurance analysts, perceive fair values as unverifiable. This is particularly the case with modelled fair values. The fact that insurers’ assets are mostly transparent, mark-to-market instruments led to the overall view that insurers’ assets are verifiable. Fair value under IFRS is timely enough to impact analysts’ decisions. However, fair value’s volatility might necessitate banks to report more frequently. Some respondents acknowledged that the understandability of fair value has improved, however the current situation is faulted for numerous limitations. Overall fair value is seen as generally relevant in that it impacts decisions or advice

feeding decisions and specifically relevant in that it is used by numerous respondents for predictive and/or confirmative purposes.

4.4 Comparing analysts' information needs with their perceptions of fair value under IFRS

The last of the research objectives is aimed at comparing analysts' information needs with their perception of fair value under IFRS. Analysts' information needs were measured by giving them a list of the six qualitative characteristics and asking them to rank this in order of importance with "1" being the most important. These measured needs were then compared to analysts' perceptions of fair value against the qualitative characteristics (as discussed in section 4.3) in order to identify gaps between analysts' perceived reality and their needs. Analysts were allowed to rank multiple characteristics at the same level if they believed these characteristics were of equal importance. The average rating per characteristic was calculated and ranked from one to six. Because analysts were asked to rank the most important characteristic as "1", the characteristic with the lowest aggregate average was identified as the most important to the twenty participants. The outcome of this comparison indicates that analysts value faithful representation the most, whilst comparability is ranked second. The rest of this section will consider the limitations of this question and include a more detailed analysis of the ranking of the various characteristics.

A large number of respondents voiced the difficulty in ranking these characteristics and it was noted that "There is some overlap with some of these to be fair" (R3). Bearing in mind that the analysts ranked overlapping characteristics at a point in time, these results are only indicators of relative importance as opposed to the absolute answer. Some analysts were also combining pragmatism and needs. For example, a number of analysts ranked verifiability very low because it is not practicable to verify the numbers. One analyst articulated this very well:

R5: "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 ..."

Views within sub-sectors were diverse. The results were analysed at the level of the financial sector as opposed to the individual sub-sectors in order to allow a sensible

comparison between the needs of analysts and the status quo. However, the insurance sector was considered separately where needed because the results of section 4.3 had shown some fundamental differences between the insurance sector and the other sub-sectors.

Figure 9 - Relative importance of qualitative characteristics

Overall Ranking	Overall Avg	Characteristic	Non-insurance Ranking	Non-insurance Avg	Insurance Ranking	Insurance Avg
1	1.7	Faithful representation	1	1.7	1	1.5
2	2.2	Comparability	2	2.3	1	1.5
3	2.7	Timeliness	4	2.6	3	3.3
4	2.8	Relevance	3	2.5	4	3.8
5	3.1	Understandability	5	2.9	4	3.8
6	3.4	Verifiability	6	3.6	2	2.3

The results of the ranking exercise showed that faithful representation is the most important for all analysts. It is also deemed highly important with an overall ranking of 1.7. Section 4.3 indicated some issues with fair value being faithfully represented. Instances of distrust are mostly focused on modelled instruments. Analysts' suspicions are also fuelled by what happened during the credit crisis. Generally speaking, analysts' need for faithful representation is met through liquid instruments. However, the importance analysts attach to faithful representation shows that more work needs to be done to restore confidence in modelled fair values.

Comparability is ranked second overall with an average rating of 2.2. This is understandable given the fact that analysts often have to recommend one stock above another. Analysts highlighted several limitations in the current offering of fair value when it comes to comparability. Considering the relative importance of comparability, more needs to be done to reduce reporting differences between companies.

Timeliness and relevance were ranked very closely (with average ratings of 2.7 and 2.8). Recall that section 4.3.4 noted how analysts perceive reported fair values to be timely enough to impact their decisions. Given that faithful representation is so highly ranked, analysts might have to accept that the procedures to ensure completeness, accuracy and neutrality (the constituent elements of faithful representation) are time consuming and as

such there will always be some lag in reported numbers being issued. The average analyst did not indicate an issue with fair value's relevance in section 4.3. The reported numbers and disclosures are therefore considered relevant enough to impact their decisions. Taking into account the fact that relevance is ranked mid-range and fair value is perceived as relevant; the needs concerning this attribute and analysts' perceptions are aligned.

Understandability and verifiability are ranked fifth and sixth overall. Analysts held varied views concerning the current understandability of fair values. The overall message in section 4.3.5 was a definite need for the understandability of reported fair values to improve. However, as the average analyst does not rate understandability as that important, this improvement is not seen as a priority. Noticeably, insurance analysts ranked verifiability second as opposed to its overall sixth place for all respondents. In section 4.3.3 it was highlighted that insurers' assets are verifiable because they generally invest in transparent, readily traded assets. Therefore, insurance analysts' need for verifiability and the level of verifiability offered by fair valued assets are aligned. Non-insurance analysts' pragmatism contributed to verifiability's low ranking. However, the fact that verification by a third party is listed as a factor impacting the usefulness of fair value (see section 4.2.1) indicates that verifiability is still deemed important on some level.

In summary, this section highlights that work needs to be done to restore confidence in modelled fair values and to eliminate differences in fair value reporting. Prompter issuance of financial statements would be a nice to have, but given the importance of faithful representation this may only remain an ideal.

4.5 Summary

To summarise the analysis: In answer to research objective one it was found that analysts use fair value under IFRS and this use varies. Uses include consideration of the risk attached to modelled fair values, inclusion in models and understanding the types of instruments that are measured at fair value. In answer to research objective two, analysts do not have a specific view concerning the usefulness of fair value under IFRS. Instead usefulness is influenced by various factors, namely: third party verification, other

information, analysts' interaction with the information, the reporting entity and the market. The findings to research objective two contribute to the existing literature by providing a comprehensive list of factors that impact fair value's usefulness in a systematic and detailed way. In answer to research objective three, a main theme is the lack of modelled fair values' faithful representation and verifiability. Fair value under IFRS is timely enough to impact decisions. The fact that fair values impact decisions also demonstrates fair value's relevance. Even though some form of comparability is enabled by reported fair values, the overall feeling is that comparability is lacking because entities are allowed freedom in how they fair value modelled instruments, what they fair value, how they classify fair valued instruments and how much they disclose. The understandability of reported fair values has improved, however more clarity is needed. The findings to research objective three contribute to the existing literature because of the focused use of the Conceptual Framework as analytical lens to understand the extent to which analysts' perceive fair value as useful. In answer to research objective four, analysts value faithful representation the most, whilst comparability is ranked second. In light of issues with modelled fair values' faithful representation and fair value's general comparability; more needs to be done to improve faithful representation and comparability of fair valued instruments. Again the current study contributes to the literature by analysing the gap between what users' need and what users perceive in terms of fair values reported under IFRS. It is reiterated that analysts held varied views. However, the systematic analysis that was applied in the current study allowed the careful consideration of different points of view under the very detailed sub-headings. Such a detailed analysis differs from a high-level analysis where contrasting views would be considered within the same section.

4.6 Limitations of data analysis and findings

This section will consider three limitations that pertain to the analysis of the data. These limitations relate to the appropriateness of applying the factors that impact on usefulness to fair value under IFRS, the possible over-representation of banks analysts in a sample that represents the financial sector and the decision to include specific themes from interview transcripts with varied views. What follows is a consideration of the identified limitations.

The data under section 4.2, namely the factors that play a role in fair value's usefulness, could often be applied to information in general as opposed to fair value per se. However, the context within which the bulk of every interview took place, namely with a strong emphasis on fair value under IFRS, validates the application of the interview findings to fair value under IFRS as opposed to information in general.

The second limitation is the over-representation of banks analysts in the sample. Fifteen of the twenty analysts focus on banks to some extent. Therefore it is acknowledged that a connection between a certain phenomenon and banks analysts specifically could have transpired because the banks analysts in this study outnumber any other sub-sector. Banks analysts' views could also have emphasised a certain theme that would have gone unnoticed in a differently structured sample. The current study does not purport to be representative of the financial-analyst population and can only report on themes that arose from the twenty interviews. Therefore the attribution of certain themes to banks analysts specifically is valid for the current sample. Also, the analysis was carefully considered for its applicability to sub-sectors and such a sub-sector specific theme was highlighted where deemed necessary.

Thirdly, there is the limitation that the current analysis omits certain themes. Most of the considered themes are not supported by quantifiable methods (the exception is section 4.3 where quantitative data are available even though it was not the main focus of the analysis and section 4.4 where analysts' information needs were ranked). Furthermore, the themes were derived from interviews with respondents who held diverse views. It is highly probable that another researcher would have focused on additional themes or different themes. This limitation is almost pre-supposed by adopting an interpretative stance. Bryman and Bell (2011) highlights how the researcher is making sense of the respondents' understanding in interpretivist studies. This sense-making introduces a subjectivity that could lead to different outcomes amongst different researchers. However, the researcher's aim in qualitative research should be a "plausible" outcome. Ahrens and Chapman (2006: 836), in their consideration of existing qualitative research, summarise how the result of an iterative qualitative process is a "plausible fit between problem, theory, and data". The current study has articulated the problem in terms of the research question and was guided by both the research question and the decision-usefulness theory upon analysis. Therefore it is postulated that the themes are "plausible" and this is evidenced by means of the

extensive use of excerpts from the interviews.

5 DISCUSSION

This chapter will consider the results of the study in the same order as the research objectives and research analysis. The outcomes will be considered against prior studies and implications for standard-setters. Even though a number of themes are highlighted below, it needs to be reiterated that the respondents expressed a vast array of views. Such a diversity of views is somewhat expected as the Conceptual Framework predicts a variation in what the individual users need (IASB, 2010b). The SEC staff (2008) also note how their participants expressed varied stances concerning fair value. The diverse views expressed in the current study were often fuelled by a focus on the liquidity and transparency of the fair valued instruments, and therefore whether instruments are marked-to-market or marked-to-model. This resonates with Gassen and Scwhedler's (2010) comment that fair value is not a single concept and users distinguish between mark-to-market and mark-to-model. There were strong similarities in the views expressed across financial sector sub-sectors and sub-sectors were only highlighted were deemed appropriate. This agrees with PwC'S (2010) findings. PwC (2010) acknowledged a general consistency in the views held by insurance, banking and generalist analysts concerning financial instruments. The current study did not identify material differences between the fair value views held by sell-side, buy-side and credit-ratings analysts. PwC (2010) made the same differentiation between analyst types and, similarly to this study, did not distinguish separate views held by different analyst types. The results of this study echoes those of prior studies to a great extent and overlap will be considered in more detail below.

5.1 Research objective one: Understanding analysts' use of fair value under IFRS

The analysis of the data showed that all the analysts have some use for fair value reported under IFRS. However, fair value is not necessarily analysts' main focus. This use includes the identification of the types of instruments that are fair valued, capital adequacy, consideration of fair value in risk analysis, use of fair values as model-inputs and a consideration of the company's valuation methodology and classification of fair values. However, analysts also use a number of other sources. Normatively, the Conceptual Framework anticipated this outcome when noting that the financial reports can only

convey a limited amount of information and additional sources have to be utilised (IASB, 2010b). The identified uses of fair value are similar to those captured by Papa and Peters (2011), PwC (2010) and the SEC (2008) and considered in section 2.5.1.

Additionally, this study shows that it is mostly banking analysts who use the fair value hierarchy and then only as a sense-check in terms of identifying the proportions of level two and/or three instruments. Song et al. (2010), in a value relevance study that links share prices and fair values, concur that the fair value hierarchy has relevance for investors in the banking sector. Contrary to the current study they find that investors place a similar amount of reliance on level one and two instruments and less on level three instruments. The interviews with analysts in the current study have shown that a number of analysts view level two instruments as significantly less reliable than level one because it is still open to manipulation. There was strong support to view level two and level three instruments with equal amounts of scepticism.

5.2 Research objective two: Exploring analysts' views on the usefulness of fair value under IFRS

Research objective two set out to explore analysts' views on the usefulness of fair value under IFRS. However, it was difficult to conclude a definitive answer. Instead, usefulness of fair value is neither an independent nor an absolute concept. Usefulness is impacted by numerous factors. These include: third party verification; the availability of other information; analysts' interaction with the data; entity-specific factors and market conditions. The literature review (refer to section 2.5.2) highlighted all of these factors to some extent based on an amalgamation of findings in prior studies (CFA Institute, 2009; Gassen & Schwedler, 2010; Papa & Peters, 2011; PwC, 2010; SEC, 2008).

The fact that usefulness is not absolute responds to "capital market literature" as well as the standard-setters framework. Landsman (2007: 20) notes how fair value numbers and disclosures have "level(s) of informativeness". The IASB (2010b: QC16) postulates that a value "will not be particularly useful" if there is a lot of uncertainty surrounding an estimate.

One of the factors that influence usefulness is the verification of the data by auditors. However, Smith-Lacroix et al. (2012) note how auditors' expertise concerning fair value is limited. As such auditors rely on valuation experts to validate fair values. This makes for an interesting chain of reliance: Analysts rely on auditors who in turn rely on their experts.

5.3 Research objective three: Assessing the extent to which analysts perceive fair value as useful as defined by the IASB's (2010b: QC3) "qualitative characteristics of useful information"

Fair value under IFRS is more useful than not. Seen holistically, liquid fair values are useful and modelled fair values are regarded with cynicism and distrust. Insurance analysts who partook in this study tended to be more positive about fair value due to insurers' fair valued assets being marked-to-market. This positivity concerning liquid fair values underscores Gassen and Schwedler's (2010) view that users distinguish between modelled and market fair values. Fair value reporting in general needs to improve. This improvement encompasses completeness of information, comparability of information across entities and the understandability of reported information. The possible submission of analysts in accepting reported fair values as "good enough" links with Durocher and Gendron's (2010) claim that users resignedly accept part-achievement of accounting ideals. This possible resignation is also seen in prior research where one comment letter states that fair value is the "best available alternative" for financial instruments (SEC, 2008: 141). However, it could also indicate a resourceful analyst who makes the best of what he/she has and moves on to other information where needed because of time-pressures and realistic world-views.

What follows is a synopsis of the findings concerning each of the individual characteristics that make up usefulness, namely: faithful representation (consisting of neutrality, accuracy and completeness), comparability, verifiability, timeliness, understandability and relevance.

Concerning neutrality, a strong theme arose that liquid assets are seen as more neutral, whereas modelled fair values are open to manipulation. Neutrality was not a focus point in any of the reviewed studies. However, PwC's (2010) respondents indicate an awareness of

modelled fair values' subjectivity to manipulation. Generally analysts to the current study require more information from reported fair values, therefore issues are identified with the completeness of the offering. Papa and Peters (2011), PwC (2010) and the SEC staff (2008) note a call for improved disclosures. However, a number of respondents who partook in the current study acknowledged an improvement in fair value disclosures of late. Therefore it seems as if disclosures are moving in the right direction. Numerous analysts who partook in the current study felt that fair value is not that accurate. Factors that impacted the perceived accuracy were limited transparency that prohibited the confirmation of either accuracy or inaccuracy, the liquidity of the instrument and the credit crisis that raises suspicions as to whether beliefs of accuracy are warranted. A strong theme in the current study is analysts' distrust of modelled fair values. However, the SEC's (2008) study, that took place during the height of the credit crisis, emphasised the fact that even market fair values are nonsensical when markets are illiquid. This does not contradict the findings of the current study (where one of the themes is fair value's inaccuracy in illiquid markets) but suggests that the timing of a study would impact respondents' focus. The respondents to the current study, which mostly occurred during the first four months of 2012, were not so focused on illiquid markets as some liquidity has been restored to the markets and entities have tried to reduce their riskier, modelled portfolios. The need for a sensitivity analysis is mentioned in prior studies (Papa & Peters, 2011; PwC, 2010; SEC, 2008) and in this study. Such a sensitivity analysis would improve accuracy because fair value is not necessarily a point estimate. None of the analysts who expressed an opinion on the fair valuation of own debt condoned the idea as a faithful representation. PwC (2010) and the SEC (2008) also identified some opposition to the fair valuation of own debt. This contradicts the CFA Institute's (2009) inconclusive results. Even though some form of comparability is enabled by reported fair values, the overall feeling is that comparability is lacking because entities are allowed freedom in how they fair value modelled instruments, what they fair value, how they classify fair valued instruments and how much they disclose. Again, this was not a focus point in any of the reviewed studies. However, Papa and Peters (2011) did indicate issues with comparability under IFRS 7. A theme in the current study is that verification of fair values is not possible when instruments are modelled. Financial statements also aggregate a vast number of items, making it impossible to verify the detail. However, numerous participants to the current study gave the impression that they were not interested in verifying the numbers and that auditors are supposed to fulfil this function. Gassen and Schwedler (2010) link

users' preference for mark-to-market to their need for external verifiability and find that users prefer audited to unaudited numbers. This indicates that the verification function, even though not performed by analysts, is important. Overall, fair value impacts the decisions of the analysts who participated in this study. This agrees with current research that confirms the overarching idea that fair value is relevant (CFA Institute, 2009; Gassen & Schwedler, 2010; Landsman, 2007; PwC, 2010; SEC, 2008). By definition reported fair values are thus seen as timely, as it is timely enough to impact decisions. However, the volatility of fair values might necessitate banks to report more frequently. Some of PwC's (2010) respondents also noted an issue with the timeliness of reporting; this led to the respondents having to consult other sources of information. The participants to the current study, similarly to the studies performed by Papa and Peters (2011), PwC (2010) and the SEC (2008), highlight the need for an improved understandability of reported fair values.

5.4 Research objective four: Comparing analysts' information needs with their perceptions of fair value under IFRS

A gap analysis between users' needs and their perceptions of fair value indicated that work needs to be done to restore confidence in modelled fair values. Differences should also be eliminated between companies' fair value reporting. Prompter issuance of financial statements would be a nice to have. However, the respondents clearly prioritise faithful representation above timeliness. Therefore speedier reporting will not be sought to the detriment of accuracy, completeness and neutrality.

Concerning faithful representation, the Conceptual Framework contains the concepts that underpin "estimates, judgements and models", however these concepts represent an ideal state and it is acknowledged that financial reports have not yet reached perfection and are in a process of increased usefulness (IASB, 2010b: OB11). This demonstrates that the standard-setters are aware of models' limitations and the need to improve its usefulness.

The Conceptual Framework (IASB, 2010b) ranks relevance as equally important to faithful representation and comparability is seen as a secondary characteristic. The analysts in this study clearly have a view that differs from the IASB's view. The current

study is not statistically representative and the result cannot be extrapolated to the analyst population. However, future studies could test this postulate.

6 CONCLUSION

The current study has answered the research question in concluding that analysts (as a particular user group) perceive fair values under IFRS to be useful. Market values are useful while modelled fair values are generally regarded with cynicism and distrust. The usefulness of fair value is not an absolute concept and impacted by numerous factors identified as: third-party verification, other information, the entity, the analyst and the market. The current study also considers analysts' perceptions regarding fair value's usefulness when measured against the Conceptual Framework's qualitative characteristics. Analysts' views vary and are impacted by their focus on modelled or market fair values and their exposure to fair valued portfolios. Issues are identified with modelled fair values' neutrality, accuracy and verifiability. Reported fair values also need to improve in terms of the completeness, understandability and comparability of the information. Fair value under IFRS is timely enough to impact users' decisions. However, the volatility of fair value numbers might necessitate more regular reporting. Fair value under IFRS is relevant in that it impacts decisions. The current study also identifies faithful representation and comparability as the two characteristics that are most important to financial sector analysts. This serves as an indication for standard-setters to prioritise work to improve the trust in modelled fair values and eliminate reporting differences between entities.

While several studies have indicated that the usefulness of fair value is impacted by certain factors (for example the CFA Institute, 2009; Gassen & Schwedler, 2010; Landsman, 2007; Papa & Peters, 2011; PwC, 2010; SEC, 2008), the contribution of the current study is its investigation of a comprehensive list of factors that impact fair value's usefulness in a systematic and detailed way in a single study. Another contribution is the current study's extensive use of the Conceptual Framework to measure usefulness and its focus on International Financial Reporting Standards (IFRS) as opposed to a combination of accounting regulation. The current study (following Smith-Lacroix et al.'s (2012) example) further contributes to the field by allowing the analysts' views to directly impact the academic literature through extensive use of quotes. Therefore this study assists in bridging the gap between theory and practice. The fact that the interviews provide up-to-date views is another of the current study's contributions. The newness of the information is important because financial instrument reporting is a moving target and recent data will be more informative in terms of encompassing recent changes. The timing of the research

also addresses a research gap identified by Gassen and Schwedler (2010): research concerning investment professionals' perceptions of measurement bases following the credit crisis.

The current study considered the views of only twenty financial sector analysts and was limited by time-constraints. Furthermore, the study only focused on the usefulness of fair value to a particular user group and this within a particular sector of the market. This study also gave a point-in-time perspective. Different perceptions might have transpired over a period of time.

Future research could test the propositions derived from the twenty interviews through content analysis of analysts' reports. It is also suggested to study non-financial sector analysts' views on fair value. Other possibilities include an understanding of other users' (i.e. other than analysts) views. Finally, it is suggested to do a longitudinal study where analysts' views are measured once IFRS 13 is effective (January 2013) and again when IFRS 9 is effective (January 2015) (IASB, 2011a; 2011e). This will give the researcher the opportunity to measure the impact of changes to fair value reporting on users' perceptions.

The current research investigated whether analysts perceive fair value under IFRS as useful. The result of twenty semi-structured interviews with financial sector analysts indicates that usefulness is neither an absolute nor an independent concept. Fair value is more useful than not. However, usefulness is impacted by third-party verification, other information, the reporting entity, the way in which the user interacts with the information and the market's liquidity, volatility and cyclicity. Issues with fair value, as measurement basis, mostly reside with modelled fair values. Analysts, as a particular user group, rank faithful representation and comparability as the two most important qualitative characteristics. Therefore standard-setters need to improve trust in modelled fair values and the comparability of fair value disclosures between entities.

7 REFERENCE LIST

AFG and FFSA (Association Française de la gestion financière and Fédération Française des Sociétés d'Assurances) (2007) Investor perspective on IFRS implementation. Collection of essays December 2007. Paris: AFG. Available at: http://www.iasplus.com/en/binary/resource/2007investorperspectives_en.pdf [Accessed: 16 October 2012].

Ahrens, T. and Chapman, C.S. (2006) 'Doing qualitative field research in management accounting: Positioning data to contribute to theory.' *Accounting, Organizations and Society*, 31, 819-541.

Bamber, M. and McMeeking, K. (2010) 'An examination of voluntary financial instruments disclosures in excess of mandatory requirements by UK FTSE 100 non-financial firms.' *Journal of Applied Accounting Research*, 11 (2), 133-153.

Barclays (2012) Barclays PLC Interim Management Statement. Available at: <http://group.barclays.com/Satellite?blobcol=urldata&blobheader=application%2Fpdf&blobheadername1=Content-Disposition&blobheadername2=MDT-Type&blobheadervalue1=inline%3B+filename%3DInterim-Management-Statement.pdf&blobheadervalue2=abinary%3B+charset%3DUTF-8&blobkey=id&blobtable=MungoBlobs&blobwhere=1330686513497&ssbinary=true> [Accessed: 11 July 2012].

Barker, R. and Imam, S. (2008) 'Analysts' perceptions of 'earnings quality.' *Accounting and Business Research*, 38(4), 313-329.

Barth, M.E. (2000) 'Valuation-based accounting research: Implications for financial reporting and opportunities for future research.' *Accounting and Finance*, 40 (1), 7-31.

Barth, M. E. (2006) 'Standard-Setters, Measurement Issues, and the Relevance of Research,' paper presented at the Information for Better Markets Conference, London, England, 18-19 December 2006.

Barth, M.E., Beaver, W.H. and Landsman, W.R. (2001) 'The relevance of the value relevance literature for financial accounting standard setting: another view.' *Journal of Accounting and Economics*, 31, 77-104.

Bernard, H.R. and Ryan, G.W. (2010) *Analyzing Qualitative Data: Systematic Approaches*. Thousand Oaks, California: Sage Publications Inc.

Biggam, J. (2008) *Succeeding with your Master's Dissertation. A step-by-step handbook*. Maidenhead: Open University Press/McGraw-Hill Education.

BIS (Bank for International Settlements) (2012) About the Basel Committee. Available at: <http://www.bis.org/bcbs/about.htm> [Accessed: 15 November 2012].

Bryman, A. and Bell, E. (2011) *Business Research Methods*. 3rd edn. Oxford: Oxford University Press Inc.

Cairns, D. (2006) 'The Use of Fair Value in IFRS.' *Accounting in Europe*, 3 (1), 5-22.

Campbell, D and Slack, R. (2008) 'Narrative Reporting: Analysts' Perceptions of its Value and Relevance.' Research Report 104. London: ACCA.

Campbell, D. and Slack, R. (2011) 'Environmental disclosure and environmental risk: Sceptical attitudes of UK sell-side bank analysts.' *The British Accounting Review*, 43, 54-64.

Cannell, C.F. and Kahn, R.I. (1968) 'Interviewing.' In: Lindzey, G. and Aronson, E. (eds.) *The Handbook of Social Psychology*. 2nd edn. MA: Addison – Wesley 526-595 in Bryman, A. and Bell, E. (2011) *Business Research Methods*. 3rd edn. Oxford: Oxford University Press Inc.

CFA (Chartered Financial Analyst) Institute (2009) *International Financial Reporting Standards Financial Instrument Accounting Survey*. Available at: http://www.cfainstitute.org/survey/financial_instrument_accounting_report.pdf [Accessed: 10 August 2012].

Chasan, E. (2008) Is fair value accounting really fair? Reuters. [Online]. 26 February. Available at: <http://www.reuters.com/article/2008/02/26/us-column-lifting-idUSN1546484120080226> [Accessed: 07 October 2012].

Chatham, M.D., Larson, R.K. and Vietze, A. (2010) 'Issues affecting the development of an international accounting standard on financial instruments.' *Advances in Accounting, incorporating Advances in International Accounting*, 26, 97-107.

Diers, D., Eling, M., Kraus, C. and Reuß, A. (2012) 'Market-consistent embedded value in non-life insurance: how to measure it and why.' *Journal of Risk Finance*, 13: 4, 320-346.

Douglas, M. (1966) *Purity and Danger: An Analysis of Concept of Pollution and Taboo*. New York: Routledge in Durocher, S. and Gendron, Y. (2010) 'IFRS: On the Docility of Sophisticated Users in Preserving the Ideal of Comparability.' *European Accounting Review*, , First published on: 24 March 2010 (iFirst).

Duh, R., Wen-hsin Hsu, A. and Alves, P.A.P. (2012) 'The impact of IAS 39 on the risk-relevance of earnings volatility: Evidence from foreign banks cross-listed in the USA.' *Journal of Contemporary Accounting and Economics*, 8, 23-38.

Dunne, T., Fifield, S., Finningham, G., Fox, A., Hannah, G., Helliard, C., Power, D. and Veneziani, M. (2008) *The Implementation of IFRS in the UK, Italy and Ireland*. Edinburgh: The Institute of Chartered Accountants of Scotland.

Durocher, S. (2009) 'The future of interpretive accounting research. The contribution of McCracken's (1988) approach.' *Qualitative Research in Accounting & Management*, 6 (3), 137-159.

Durocher, S., Fortin, A. and Côté, L. (2007) 'Users' participation in the accounting standard-setting process: A theory-building study.' *Accounting, Organizations and Society*, 32, 29-59.

Durocher, S. and Gendron, Y. (2010) 'IFRS: On the Docility of Sophisticated Users in Preserving the Ideal of Comparability.' *European Accounting Review*, , First published on: 24 March 2010 (iFirst).

EC (Commission of the European Communities) (2002) 'Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards.' *Official Journal of the European Communities*. L243/1 (11.9.2002). Available at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2002:243:0001:0004:EN:PDF> [Accessed: 13 December 2012].

Elliot, W. B., Hodge, F. D., Kennedy, J. and Pronk, M. (2007) 'Are MBA students a good proxy for nonprofessional investors?' *The Accounting Review*. 82, 139-168 in Gassen, J. and Schwedler, K. (2010) 'The Decision Usefulness of Financial Accounting Measurement Concepts: Evidence from an Online Survey of Professional Investors and their Advisors.' *European Accounting Review*, 19(3), 495-509.

EU (European Union) Delegation to the USA (2012) Member States. Available at: <http://eurunion.org/eu/Member-States/Member-States.html> [Accessed: 14 December 2012].

FASB (2010) Conceptual Framework—Joint Project of the IASB and FASB. Available at: http://www.fasb.org/jsp/FASB/FASBContent_C/ProjectUpdatePage&cid=900000011090 [Accessed: 5 November 2012].

Field, A. (2009) *Discovering Statistics Using SPSS*. 3rd edn. London: Sage Publications Inc.

Foucault, M. (1975) *Discipline and Punish: The Birth of the Prison*. Paris: Editions Gallimard in Durocher, S. and Gendron, Y. (2010) 'IFRS: On the Docility of Sophisticated Users in Preserving the Ideal of Comparability.' *European Accounting Review*, , First published on: 24 March 2010 (iFirst).

Gassen, J. and Schwedler, K. (2010) 'The Decision Usefulness of Financial Accounting Measurement Concepts: Evidence from an Online Survey of Professional Investors and their Advisors.' *European Accounting Review*, 19(3), 495-509.

Goff, S. (2011) 'Barclays calls for clarity on fair value debt.' *Financial Times*. [Online]. 14 November. Available at: <http://www.ft.com/cms/s/0/5414c254-0def-11e1-9d40-00144feabdc0.html#axzz2DuLWmCRm> [Accessed: 02 December 2012].

Guest, G., Bunce, A. and Johnson, L. (2006) 'How many interviews are enough.' *Field Methods*, 18, 59-82.

Herrmann, D., Saudagaran, S.M. and Thomas, W.B. (2006) 'The quality of fair value measures for property, plant, and equipment.' *Accounting Forum*, 30, 43–59.

Hitz, J. (2007) 'The Decision Usefulness of Fair Value Accounting – A Theoretical Perspective.' *European Accounting Review*, 16(2), 323-362.

Hoogervorst, H. and Seidman, L.F. (2012) IASB-FASB Update Report to the FSB Plenary on Accounting Convergence. Available at: http://www.fasb.org/cs/ContentServer?site=FASB&c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176159985026 [Accessed: 2 December 2012].

HSBC (2011) Interim Management Statement. Available at: http://www.hsbc.com/1/content/assets/investor_relations/111109_interim_management_statement.pdf [Accessed: 11 July 2012].

IASB (2008) IASB amendments permit reclassification of financial instruments. Available at: <http://www.iasplus.com/en/binary/pressrel/0810reclassifications.pdf> [Accessed: 12 December 2012].

IASB (2009) IASB enhances financial instruments disclosures. Available at: <http://www.iasplus.com/en/binary/pressrel/0903ifrs7amendments.pdf> [Accessed: 13 October 2012].

IASB (2010a) IASB finalises enhanced derecognition disclosure requirements for transfer transactions of financial assets. Available at: <http://www.iasplus.com/en/binary/pressrel/1010derecognition.pdf> [Accessed: 13 October 2012].

IASB (2010b) The Conceptual Framework for Financial Reporting 2010. London: IFRS Foundation Publications Department.

IASB (2010c) IASB issues additions to IFRS 9 for financial liability accounting. Available at: <http://www.ifrs.org/News/Press-Releases/Pages/IFRS9-October-10.aspx> [Accessed: 02 December 2012].

IASB (2011a) International Financial Reporting Standard 13: Fair Value Measurement. Available at: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ifrs13.pdf> [Accessed: 29 August 2012].

IASB (2011b) International Accounting Standard 32: Financial Instruments: Presentation. Available at: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ias32.pdf> [Accessed: 15 October 2012].

IASB (2011c) International Accounting Standard 39: Financial Instruments: Recognition and Measurement. Available at: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ias39.pdf> [Accessed: 28 November 2012].

IASB (2011d) International Financial Reporting Standard 7: Financial Instruments: Disclosures. Available at: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ifrs7.pdf> [Accessed: 11 December 2012].

IASB (2011e) International Financial Reporting Standard 9: Financial Instruments. Available at: <http://eifrs.ifrs.org/eifrs/bnstandards/en/2012/ifrs9.pdf> [Accessed: 13 December 2012].

ICAEW (2008) International Financial Reporting Standards: Certificate Manual. Milton Keynes: ICAEW.

Julius Baer (2011) Annual Report 2011. Available at: <http://www.juliusbaer.com/data/docs/download/6268/en/2012-02-06-JuliusBaer-FYR11-AnnualReport.pdf> [Accessed: 09 September 2012].

Julius Baer (2012a) Media Release. Available at: <http://www.juliusbaer.com/data/docs/download/6520/en/2012-07-23-JuliusBaer-HYR2012-MediaRelease.pdf> [Accessed: 09 September 2012].

Julius Baer (2012b) Half-year report 2012. Available at: <http://www.juliusbaer.com/data/docs/download/6522/en/2012-07-23-JuliusBaer-HYR2012-HalfYearReport.pdf> [Accessed: 09 September 2012].

Koonce, L., Nelson, K.K. and Shakespeare, C. (2011) Judging the Relevance of Fair Value for Financial Instruments. Available at SSRN: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1431649 [Accessed: 5 November 2012].

Landsman, W.R. (2007) 'Is fair value accounting information relevant and reliable? Evidence from capital market research.' Accounting and Business Research, Special Issue: International Accounting Policy Forum, 19-30.

Landsman, W.R., Maydew, E.L. and Thornock, J.R. (2012) 'The information content of annual earnings announcements and mandatory adoption of IFRS'. Journal of Accounting and Economics, 53(1-2), 34-54.

Lewins, A. and Silver, C. (2007) Using Software in Qualitative Research. London: Sage Publications Inc.

MacQueen, K.M., McLellan, Kelly, K. and Milstein, B. (1998) 'Code book development for team-based qualitative analysis.' Cultural Anthropology Methods Journal, 10, 31-36. Available at:

<http://www.cdc.gov/hiv/topics/surveillance/resources/software/pdf/codebook.pdf>
[Accessed: 21 May 2012].

Madhavan, R. and Grover, R. (1998) 'From embedded knowledge to embodied knowledge: new product development as knowledge management.' *Journal of Marketing*, 62, 1-12.

Maxwell, J.A. (1992) 'Understanding and validity in qualitative research.' *Harvard Educational Review*, 62 (3), 279-300.

Melville, A. (2011) *International Financial Reporting: A Practical Guide*. Harlow: Pearson.

Miles, M.B. and Huberman, A.M. (1994) *An expanded sourcebook: Qualitative Data Analysis*. 2nd edn. London: Sage Publications Inc.

Norreklit, L., Norreklit, H. and Israelsen, P. (2006) 'The validity of management control topoi towards constructivist pragmatism.' *Management Accounting Research*, 17, 42-71.

Papa, V.T. and Peters, S.J. (2011) *User perspectives on financial instrument risk disclosures under International Financial Reporting Standards (Volume I)*. Available at: http://www.cfainstitute.org/learning/products/publications/contributed/Pages/user_perspectives_on_financial_instrument_risk_disclosures_under_international_financial_reporting_standards__volume_1.aspx [Accessed: 11 November 2012].

Patton, M. Q. (2002) *Qualitative Research & Evaluation Methods*. London: Sage.

Pettigrew, A. and McNulty, T. (1995). 'Power and Influence in and Around the Boardroom.' *Human Relations*, 48(8), 845-873.

PwC (2010) *What investment professionals say about financial instrument reporting*. Available at: http://www.pwc.com/en_GX/gx/ifrs-reporting/pdf/Financial_instruments_reporting_FINAL_NEW.pdf [Accessed: 03 September 2011].

PwC (2011) IFRS adoption by country. Available at: http://www.pwc.com/en_US/us/issues/ifrs-reporting/assets/ifrs_country_adoption.pdf [Accessed: 13 December 2012].

Quinn, J. (2009) 'Britain overtakes US as top financial centre.' The Telegraph. [Online]. 8 October. Available at: <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/6272639/Britain-overtakes-US-as-top-financial-centre.html> [Accessed: 30 December 2010].

RBS (2011) Interim Results. Available at: <http://www.investors.rbs.com/download/announcements/Q2Announcement2011.pdf> [Accessed: 11 July 2012].

Ryan, B., Schapens, R.W. and Theobald, M. (2002) Research Method & Methodology in Finance & Accounting. 2nd edn. Hampshire: Cengage Learning.

Saunders, M., Lewis, P. and Thornhill, A. (2007) Research Methods for Business Students. 4th edn. Harlow: FT Prentice Hall.

Scott, R. S. (2009) Financial Accounting Theory. 5th Edition. Toronto, Ontario: Pearson Canada Inc.

SEC (Staff of the U.S. Securities and Exchange Commission) (2008) Report and Recommendations Pursuant to Section 133 of the Emergency Economic Stabilization Act of 2008: Study on Mark-To-Market Accounting. United States: Stationary Office. Available at: <http://www.sec.gov/news/studies/2008/marktomarket123008.pdf> [Accessed: 2010].

SEC (Staff of the U.S. Securities and Exchange Commission) (2011) Work Plan for the Consideration of Incorporating International Financial Reporting Standards into the Financial Reporting System for U.S. Issuers A Comparison of U.S. GAAP and IFRS. United States: Stationary Office. Available at:

<http://www.sec.gov/spotlight/globalaccountingstandards/ifrs-work-plan-paper-111611-gaap.pdf> [Accessed: 6 August 2012].

Smith-Lacroix, J-H., Durocher, S. and Gendron, Y. (2012) 'The erosion of jurisdiction: Auditing in a market value accounting regime.' *Critical Perceptions on Accounting*, 23,36-53.

Song, C.J., Thomas, W.B. and Yi, H. (2010) "Value Relevance of FAS No. 157 Fair Value Hierarchy Information and the Impact of Corporate Governance Mechanisms." *The Accounting Review*, 85(4), 1,375-1,410.

Staubus, G. J. (2000) *The Decision-Usefulness Theory of Accounting: A Limited History*. New York: Garland Publishing Inc.

Véron, N. (2007) 'Introduction.' In: Association Française de la gestion financière (AFG) and Fédération Française des Sociétés d'Assurances (FFSA) (2007) *Investor perspective on IFRS implementation*. Collection of essays December 2007. Available at: http://www.iasplus.com/en/binary/resource/2007investorperspectives_en.pdf [Accessed: 15 October 2012].

Whitwell, G.J., Lukas, B.A. and Hill, P. (2007) 'Stock analysts' assessments of the shareholder value of intangible assets.' *Journal of Business Research*, 60, 84-90.

Wright, G.H. von (1971) *Explanation and Understanding*. London: Routledge in Bryman, A. and Bell, E. (2011) *Business Research Methods*. 3rd edn. Oxford: Oxford University Press Inc.

Young, J. J. (2006) 'Making up users.' *Accounting, Organizations and Society*, 31, 579-600.

APPENDIX A: INTERVIEW SCHEDULE USED IN PILOT STUDY

Respondent's Demographics	
1	Describe your role within your organisation - for example sell-side analyst, buy-side analyst, institutional investor⁴¹.
2	What sector do you focus on?⁴²
3a)	Do you focus more on any one of debt, equity or derivatives⁴³?
3b)	If yes, which type of security do you focus on most?
4	For how many years have you been in this or a similar role?⁴⁴
5	What geographical areas do you cover in your work? e.g. Europe, UK, US.
6	What is your educational background?
Sources utilised in decision making	
7	Rating the following statements from 1-5 with 1 being strongly agree and 5 being strongly disagree.
a)	How would you rate the statements concerning sources utilised in giving advice or making decisions concerning banks⁴⁵: <ul style="list-style-type: none">• My advice or decision is based on primary financial statements of banks• My advice or decision is based on footnotes/disclosures to primary financial statements of banks• My advice or decision is based on banks' regulatory filings• My advice or decision is based on banks' press releases/ earnings releases• My advice or decision is based on banks' briefings/ meetings with management• My advice or decision is based on management discussion and analysis
b)	What other sources of information do you use for giving advice or making decisions?⁴⁶

⁴¹ Based on roles identified by PwC (2010) and Gassen and Schwedler (2010).

⁴² Based on data gathered by PwC (2010).

⁴³ Based on security types identified by PwC (2010) and Gassen and Schwedler (2010).

⁴⁴ Similar to data gathered by Gassen and Schwedler (2010).

⁴⁵ The idea to use the phrase "my advice or decision is based on" comes directly from Gassen and Schwedler (2010: 501). The source of this advice or decision was taken directly from PwC (2010: 8).

⁴⁶ Based on a question asked by PwC (2010).

Exploring the user's views on usefulness within the context of fair value reporting

- 8 How do you use fair value information in your analysis of a bank?⁴⁷
- 9a) What criteria would you use to evaluate if fair value information can be used to make investment decisions? E.g. information needs to be transparent⁴⁸.
- 9b) Do the primary financial statements and footnotes currently give you the kind of information that you need on fair value to enable decision making?⁴⁹
- 10 Is there a figure relating to fair value in the primary statements or in the disclosures that you need to adjust for when analysing banks' financial statements?⁵⁰
- Could you expand on this?
- 11 In what way does the levelling of fair value financial instruments, from level 1-3, impact your decision making?

Investigating the users' views on the usefulness of fair value when usefulness is defined by the Conceptual Framework

- 12 To what extent do you agree with the following statements about fair value reporting (in primary financial statements and disclosures)⁵¹;
Rating the following from 1-5, 1 being strongly agree and 5 being not agree at all.
- Fair value reporting is neutral (i.e. free from bias)
 - Fair value reporting conveys the information that is needed to understand the nature of the values and descriptions in order to make decisions
 - Fair value reporting is clear and accurate
 - Fair value reporting enables comparability
 - The numbers reported under fair value is verifiable
 - Fair value information (in financial reporting) impacts your decisions
 - Fair value information is characterised, classified and presented in a way that makes it clear and concise
 - Fair value information in financial reports helps you to confirm expectations and make predictions about the future

⁴⁷ Based on a question asked by PwC (2010) and the *Conceptual Framework's* link between use in making decisions and usefulness (IASB, 2010b).

⁴⁸ Based on the *Conceptual Framework's* criteria for useful information (IASB, 2010b).

⁴⁹ Based on a question asked by PwC (2010).

⁵⁰ Based on a question asked by PwC (2010).

⁵¹ Based on the definitions of the qualitative characteristics (IASB, 2010b).

13 If you think about characteristics that would make fair value reporting useful, how would you rank the following⁵².

1 is most important

Different characteristics can have the same 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**

⁵² Based on the qualitative characteristics of useful information (IASB, 2010b).

APPENDIX B: FINAL INTERVIEW SCHEDULE

Respondent's Demographics	
1	Describe your role within your organisation - for example sell-side analyst, buy-side analyst, institutional investor⁵³.
2	What sector do you focus on?⁵⁴
3a)	Do you focus more on any one of debt, equity or derivatives? ⁵⁵
3b)	If yes, which type of security do you focus on most?
4	For how many years have you been in this or a similar role?⁵⁶
5	What geographical areas do you cover in your work? e.g. Europe, UK, US.
6	What is your educational background: University and professional qualifications
Sources utilised in decision making	
7a)	Rating the following statements from 1-5; with 1 being strongly agree and 5 being strongly disagree.
	How would you rate the statements concerning the sources you use to give advice or make decisions⁵⁷ ?
	<ul style="list-style-type: none">• My advice or decision is based on primary financial statements• My advice or decision is based on footnotes/disclosures to primary financial statements• My advice or decision is based on regulatory filings• My advice or decision is based on press releases/ earnings releases• My advice or decision is based on briefings/ meetings with management• My advice or decision is based on management discussion and analysis
b)	What other sources of information do you use for giving advice or making decisions?⁵⁸
Exploring the user's views on usefulness within the context of fair value reporting	
8a)	Do you use the fair value information that is available in entities' primary financial statements and disclosures⁵⁹?

⁵³ Based on roles identified by PwC (2010) and Gassen and Schwedler (2010).

⁵⁴ Based on data gathered by PwC (2010).

⁵⁵ Based on instruments identified by PwC(2010) and Gassen and Schwedler (2010).

⁵⁶ Similar to a question asked by Gassen and Schwedler (2010).

⁵⁷ The idea to use the phrase "my advice or decision is based on" comes directly from Gassen and Schwedler (2010: 501). The source of this advice or decision was taken directly from PwC (2010: 8).

⁵⁸ PwC (2010) also enquired about the use of other sources of information.

⁵⁹ Based on a question asked by PwC (2010) and the *Conceptual Framework's* link between use in making decisions and usefulness (IASB, 2010b).

- b) How do you use the fair value information⁶⁰?
- c) What would you like to see changed to improve your use of fair value information⁶¹?
- 9 Tell me more about your use of the financial statement disclosures on fair value.
- 10 Do you adjust the fair values provided in the primary financial statements⁶²?
Could you expand on this?
- 11 Do you treat levels 1, 2 and 3 fair values differently?
If so, what do you do with level 1; what do you do with level 2; what do you do with level 3?

Investigating the users' views on the usefulness of fair value when usefulness is defined by the Conceptual Framework

- 12 To what extent do you agree with the following statements about assets and liabilities that are measured at fair value and the disclosures thereof⁶³.
Rating the following from 1-5, 1 being strongly agree and 5 being not agree at all.
- Fair value is not aggressive or conservative; i.e. no hidden management agenda
 - Fair value gives the needed information to make decisions
 - Fair value is clear and accurate
 - Fair value enables me to compare entities
 - Fair value information is verifiable
 - Fair value impacts my decisions
 - Fair value information is clear and concise
 - Fair value helps me to confirm expectations and make predictions

⁶⁰ Based on a question asked by PwC (2010) and the Conceptual Framework's link between use in making decisions and usefulness (IASB, 2010b).

⁶¹ Based on a question asked by PwC (2010).

⁶² Based on a question asked by PwC (2010).

⁶³ Based on the definitions of the qualitative characteristics (IASB, 2010b).

13 Imagine you are given the chance to rank characteristics that impact the usefulness of fair value⁶⁴. How would you rank the items below?

1 is most important

Different characteristics can have the same 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**

⁶⁴ Based on the characteristics of useful information (IASB, 2010b)