How Does Accountability and Role Drive Valuation Specialists' Determination of Fair Value?

ABSTRACT

We interview valuation specialists (specialists) employed by accounting firms (in North America, Europe, and the Asia-Pacific region) to understand how their felt accountability to internal (auditors) vs. external clients (managers) influence the estimation and financial reporting and audit quality of complex financial instruments reported in audited financial statements. Specialists are integral to determining the fair values reported in audited financial statements because managers and auditors lack the necessary skill to do so and seek specialists' assistance to fulfill their financial reporting responsibilities. Thus, the same specialists, at different times, act as either preparers (helping managers estimate fair values) or evaluators, supporting auditors' assessments of their client's fair value estimates. Our interviews reveal that differences across the specialists' roles activate different types of felt accountability to managers and auditors. These felt accountability differences can result in lower commitment to ensure the adequacy of the specialist's scope of services when evaluating versus preparing fair estimates. Specialists also exploit the subjectivity in fair value estimates to support balances that meet management's preferences and complete valuations that avoid material audit differences. Importantly, such specialists' behaviors and the consequences of their actions impact the amount of the fair values reported in financial statements yet are unobservable. Thus, financial statement users do not have access to potential bias existing in the estimates.

I. Introduction

We examine how audit firm-employed valuation specialists' (hereafter, specialists) process and approach to estimate the fair value measurements (FVMs) reported in audited financial statements are similar or different depending on the role they assume (preparer vs. evaluator) and the client to whom they are accountable (management vs. auditors) when valuing complex financial securities (i.e., Level 3 assets). Fair value estimation is highly subjective and susceptible to management bias and opportunism (e.g., Chandar and Bricker 2002; Dechow et al. 2010; Choudhary 2011)[1] and Christensen, Glover and Wood (2012) illustrate that the estimation uncertainty inherent in FVMs can exceed multiples of a company's quantitative audit materiality threshold. Specialists are integral to the FVMs reported in audited financial statements because management, except in the financial services sector, and auditors tasked with preparing and auditing FVMs lack the technical expertise and therefore seek specialists' assistance (Bratten, Gaynor, McDaniel, Montague, and Sierra, 2013). The specialist's role in preparing and evaluating fair value balances, which are often deemed a critical audit matter, warrants examination because managers can "opinion shop" for specialists who will provide FVMs that meet management's preference (see experimental evidence in Salzsieder 2015). Additionally, the PCAOB (PCAOB 2018, 30) and Cannon and Bedard (2017) estimate that auditors rely on specialists for 85 to 86 percent of audits.

Although fair value accounting was implemented over 15 years ago, regulators continue to express concerns about the accounting and assurance of FVMs and the use of specialists in financial reporting (IFIAR 2020; SEC 2020; PCAOB 2020).[2] Moreover, audit firm-employed

[1] Chandar and Bricker (2002) show income smoothing. Dechow, Myers, and Shakespeare (2010) find managers exploit the FVM subjectivity to reap higher compensation and Choudhary (2012) finds that managers manipulate the estimate of employee stock option price by as much as 7% and equivalent to a 3.2% impact on absolute net income.
[2] In the U.S., for example, the passage of fair value reporting standards occured in 2006 (FASB 2006).

valuation specialists who support accountants must balance the demands of dual roles serving auditors as their internal clients (the evaluation role) and financial reporting entities (management, hereafter) as their external clients (the preparation role).[3] Yet "most prior research reports auditors' views about specialists" (Boritz, Kochetova, Robinson, and Wong 2020, 4) and their interactions with specialists, and how auditors use the work of specialists. We analyze the perceptions of these specialists who prepare FVMs for complex financial instruments because these securities represent a significant portion of the fair-valued instruments reported in financial statements worldwide (i.e., exceeding $200 trillion)[4]. Further, Hux's (2017) literature review calls for research that presents the specialist perspective.

Recurring concerns about audited FVMs and the misspecification of asset balances around the Global Financial Crisis of 2008-2009 prompts questions about how specialists contribute to financial reporting quality. Several prior studies have examined how and whether auditors contribute to financial reporting and governance failures when providing both audit and consulting services (e.g., Francis 2006; Joe and Vandervelde 2007). Other studies have investigated whether corporate board members experience role conflict from serving both as fiduciary agents on behalf of investors and as advisors to the management team (e.g., Laux and Laux 2009; Kang 2019). Similarly, Maas and Matejka (2009) provide evidence that conflict arising from segment controllers' dual roles as information providers to satisfy local decision making (local responsibility) and agents of corporate control (functional responsibility) contribute to the prevalence of misreporting at the segment level.

We contribute to this literature by examining whether specialists serving in roles to support

[3] Note that firm employed specialists can only provide preparation services for non-audit clients.
[4] Securities Industry and Financial Markets Association (2020) estimates the global debt and global equity markets at about $106 Trillion and $95 Trillion, respectively. McKinsey (2020) estimates that private equity and debt markets are $6.5 trillion, and MSCI Inc./Teuben and Neshat (2020) estimate the professionally managed market at $9 trillion.

both preparers and auditors of FVMs can negatively impact FVM estimation and audit quality.

To analyze how specialists manage their dual roles as preparers and evaluations of fair value estimates, we develop a joint role theory and accountability framework. Frink and Klimoski (2004) first introduced the idea that an individual's functional role could impact their accountability to the audience (which they label the role sender) of their work and that felt accountability could shape behaviors on the job. Frink and Klimoski (2004) argue that employees' functional roles in organizations make them accountable to specific individuals and constituents. They suggest that employees' felt accountability to those who have authority over them will yield predictable behaviors, but the authors do not elucidate how accountability operates to influence behaviors. We use the joint role-accountability framework to analyze how the role that specialists assume can activate accountability effects that prompt differences in specialists' actions and perceptions across the preparation and evaluation of fair value estimates. One key difference in specialists' role as a support function for financial statement preparation versus support for auditing financial statements is the degree of regulatory oversight. In the U.S., UK, and Canada, auditors of large filers are subject to annual inspections. In the U.S., the PCAOB routinely lists complex estimates as an area of high inspection risk and prone to audit deficiencies (PCAOB 2015b; Glover et al. 2019). Thus, the role theory accountability framework predicts that specialists would focus more on justification and preemptively defensive behaviors when serving on audit teams versus when serving as advisors to management.

We rely on insights from the prior literature and themes from interviews to develop the role theory and accountability framework to analyze specialists' behaviors and interactions with other professionals (management, auditors, and other specialists). We also examine how these specialist behaviors and interactions influence fair value reporting for financial statement purposes. Twenty high-level specialists employed by global and national accounting firms and domiciled in North America, Europe, and Asia-Pacific served as participants in our study. We use a semi-structured interview approach because it allows us to directly explore the roles specialists occupy in accounting firms and how they manage their relationships with the two primary stakeholders with control over the presentation of FVMs in audited financial statements. Using a qualitative research approach satisfies our goal to present a richer, more comprehensive understanding of the specialist's role in financial reporting and how specialists can influence financial reporting quality related to FVMs. The qualitative method also provides an opportunity to gain constructive insights into previously unobservable factors influencing specialists' judgments and contributions to FVMs that appear in the financial statements.

Prior research notes that specialists prefer delivering preparation services over evaluation services because it is more lucrative (Barr-Pulliam et al. 2021). Specialists interviewed further indicated that the increased financial reward coupled with the autonomy enjoyed in the preparation role made them more willing to meet client preferences when serving managers than when serving auditors. In the preparation role, specialists work to safeguard the market for preparation services. They focus more on establishing and maintaining relationships to win referrals for business than in the evaluation role, which is internal and perceived as less prestigious. The desire to gain and retain preparation clients motivates specialists to be more willing to seek ways to develop estimates that meet management's objectives.

Moreover, because specialists are aware that the manager's FVMs are audited, they seek approval from the client's auditor to ensure that their valuation approach will pass audit muster. This approach minimizes conflict over the FVM that ultimately appears in the financial statements. Thus, as preparers, specialists are indirectly accountable to auditors and preemptively prepare estimates that are justifiable to them. In the evaluation role, specialists are not as uniformly oriented towards meeting auditor preferences. Specialists note a variety of strategies to address when the client's FVM falls outside of their comfort level. These strategies include using alternative methods or inputs to arrive at values that avoid material differences from the client's estimate, explicitly emphasizing that it is the auditor's responsibility to sign off on the client's estimate, and outright refusal to deliver a report for the audit files that differs from the amount they calculated. Last, we observe that specialists are more concerned about justifying their work to meet the scrutiny of audit oversight and regulators than they are about accounting regulatory scrutiny.

Our findings are informative to academics, regulators, and financial statement users. Several studies have focused on auditors' use of the work of specialists, and the difficulties auditors encounter when using the work of specialists (e.g., Cannon and Bedard 2017; Glover, Taylor, and Wu 2019; Boritz et al. 2020; Griffith 2020). These studies focus on auditors' actions as the potential sources of audit deficiencies or as the key agents driving auditor-specialist interactions. We provide new evidence on ways that specialists' attitudes and behaviors can influence the quality of the audit of FVMs. Importantly, our interviews reveal specialists' actions that can impact both financial reporting and audit quality around FVMs are unobservable to users and audit regulators. Our research is relevant to regulators because we present evidence that while specialists report feeling accountable to justify their work to regulators, they can engage in form over substance documentation to meet this regulatory scrutiny. Our participants' responses indicate that achieving improved auditor-specialist interactions and relationships that enhance audit efficiency and effectiveness may require audit firms to consider specialists' attitudes and motivations.

Further, while both regulators and financial statement users express a strong desire to gain more insights into the subjectivity around accounting estimates (Fuller, Joe and Luippold 2021), specialists report a focus on documentation to support rather than improve clarity in the measurement uncertainty and subjectivity surrounding the audited FVM. Of potential concern to users and regulators, specialists report choices that bias accounting estimates that occur behind the scenes in the production of financial statements in ways that are unobservable to users, regulators, and researchers who have access only to the publicly available information.

II. An Accountability and Role Theory Framework for Analyzing Specialist's FVM Task

We employ insights from a framework that combines accountability and role theory to analyze how specialists' perceptions and interactions with their clients (auditors and management) differ or are similar depending on the type of valuation service provided. Accountability theory holds that people adapt and modify their behaviors when there is an expectation, implicit or explicit, that they will have to justify their beliefs, feelings, and actions to others who can judge their actions, have authority over them, and impose positive or negative consequences on them (Tetlock, Skitka, and Boettger 1989; Lerner and Tetlock 1999). In accounting, for example, Gibbins and Newton (1994, 167) report that individuals "shift their attitude toward" their evaluations' attitudes and devise strategies to limit conflict with evaluations. Role theory argues that people behave in predictable and different ways depending on the particular role and social identity they occupy in one versus another situation (Biddle 1986). Roles represent a collection of "behaviors that are characteristic of persons in a context" (Biddle 2013). According to role theory, the pattern and characteristics of social behaviors, the specific social identities or parts of social identities assumed, and the "scripts" (expectations for behavior) are understood by and adhered to by the participants in any given social context.

Integrating the two theories, Frink and Klimoski (2004) introduced a role theory-accountability framework, positing that the various roles and functions assigned to employees in an organization trigger feelings of accountability to specific constituents and individuals. They note that the accountability workers feel and the interdependencies and consequences of their roles in the organization will yield predictable behaviors and expectations. Moreover, they point out that accountability to different constituents (labeled "role senders") can have undesirable effects. A key advantage of layering accountability with role theory is that it allows for a clearer analysis of where the interactive effects of the role and attendant accountabilities can lead to undesirable outcomes for an organization (Frink et al. 1995). We use the accountability-role theory framework to understand how specialists' behavior, valuation process, and relationships differ when performing valuation tasks for auditors and managers (See Figure 1).

As employees of global professional service firms, specialists assume two distinct roles connected to the fair value balances reported in financial statements. First, they provide consulting services to managers who must report FVMs for their accounts subject to ASC 820 and ASC 825 standards. This manuscript refers to this service as the "preparation" role because the specialists assist management in preparing the FVMs that appear in the audited financial statements. Second, because auditors evaluate the reasonableness of the FVMs reported in clients' financial statements yet lack valuation expertise, they rely on specialists to assist them on financial statement audits. When supporting the audit, the specialist's role is to evaluate the measurements already prepared, which we refer to as the "evaluation" role.

Note that accounting regulations prohibit specialists from providing preparer services to their firms' audit clients to prevent a conflict of interest. Because specialists have distinct constituents and accompanying expectations when they serve as either a member of an audit team (evaluation role) or a consultant for management preparing financial statements (preparation role), we draw on these insights from role theory and accountability to analyze their valuation task approach and interrelationships under the two roles.

There are four general phases in the specialist's task of performing valuation services for auditors and external clients: *Project Acquisition, Fees and Planning*; *Establishing Scope, Valuation Approach and Methodology*; *Managing Relationships*; *Negotiations and Reporting of Final Measurement* (Barr-Pulliam et al. 2019; See Figure 2). McGrath noted that role expectations specify "not only what should be done, but who should do what, when and how" (McGrath 1984, p. 201). Consistent with the Frink and Klimoski (2004) framework, we anticipate that serving as a consultant for management will trigger differing felt accountability for specialists than serving as an audit team member and will influence how specialists perceive aspects of their responsibilities, norms, and actions.

In the first phase of the valuation task, the differing roles – preparer or evaluation – lead specialists to be accountable to different customer types: an external customer when serving as preparers and an internal customer when serving in the evaluation role. We anticipate different levels of felt accountability due to the context-specific nature of each client. Felt accountability will influence how specialists approach the market for their service (including fee negotiations), establish the project plan and budget, and respond to customer pressures. For example, Barr-Pulliam et al. (2021) report that specialists and auditors are in conflict over the fees allocated to the specialist for their valuation work and that specialists respond by giving evaluation assignments lower priority than preparer assignments. Thus, we anticipate that specialists would be more accommodating towards managers when serving as preparers than towards auditors when serving in the evaluation role. Because specialists face different regulatory oversight agencies when they serve in the preparation (directly accountable to SEC and indirectly accountable to the PCAOB) versus evaluation (directly accountable to the PCAOB and a higher risk of scrutiny) role, we anticipate that this institutional factor will yield different types of felt accountability and behaviors.

During Phase 2 of the valuation task, specialists focus on establishing the scope of the project and their valuation methodology and approach. Earley, Hoffman, and Joe (2018) argue that auditors and clients can have conflicting incentives related to fair value measurement. Laux and Leuz (2009) observe that uncertainty around fair value measurements leads financial statement users to discount reported fair asset balances by as much as 30%. Accordingly, we anticipate that when specialists serve in the preparation role, accountability to management is likely to elicit subjective judgments that will maximize (minimize) the valuation for fair value assets (liabilities). Determining the scope of the work to perform is one specific area of subjectivity. Auditors bear primary responsibility for evaluating the reasonableness of management's estimates and exercise more control in decisions over scoping (Barr-Pulliam et al. 2021).

In contrast, managers bear primary responsibility for the reporting of fair values. Specialists, therefore, will have less (more) autonomy when servicing auditors (managers) and be more likely to engage in outcome (process) accountability, justifying behaviors when in the evaluation (preparation) role (Lerner and Tetlock 1999). In addition, because the preparation role constitutes developing a new FVM from scratch, whereas the evaluation role requires assessing the reasonableness of a previously determined value, we anticipate that being accountable to two different financial reporting stakeholders will result in differences in the specialist's choice of valuation methods. Moreover, because auditors face more scrutiny due to the heightened risk of PCOAB inspection (PCAOB 2017), we anticipate that accountability will lead to stronger behaviors that seek to justify actions to a potential PCAOB inspector when in the evaluation relative to the preparation role—consistent with process accountability (Lerner and Tetlock 1999).

In Phase 3, specialists focus on determining the measurement and managing their relationships with the other professionals in the fair value reporting process (e.g., auditors, management, and other specialists). Fair value measurement is highly subjective, which allows for significant latitude in developing estimates. Accountability theory predicts that specialists will exploit this subjectivity to derive estimates that are in line with the preferences of the financial reporting stakeholders to whom they are accountable (Lerner and Tetlock 1999; Hall, Frink, Buckley 2017; Frink and Klimoski 2004). Financial reporting and auditing standards allow for judgment in deriving fair values, but financial reporting standards are less prescriptive than auditing standards and do not come with the inspection risk. Thus, accountability theory anticipates that specialists will focus more on taking defensible positions in the evaluation role than in the preparation role. Accountability theory also predicts that specialists would have more documentation details and create a more thorough audit trail for PCAOB inspectors when serving in the evaluation role compared to the preparation role.

Barr-Pulliam et al. (2021) report that tensions ensue in the auditor-specialist relationship when auditors lack knowledge and are less competent in fair value. Often this occurs because a lack of knowledge is more likely to drive unrealistic expectations and uninformed requests for the specialist. Research suggests a more collectivist and collaborative approach among integrated team members prompts accountability behaviors that are more in line with the preferences of the role sender (Wang, Waldman, Ashforth 2019; Frink and Klimoski 2004). In the financial reporting context, we anticipate the specialists in the preparation role will be more oriented toward maintaining a positive client relationship with managers than auditors because the preparation service is more profitable than the evaluation service (Barr-Pulliam et al. 2019). Additionally, the financial advantages and reputational capital that accrues with the preparation over evaluation service are likely to motivate stronger accountability to outcomes that match managers' preferences than those of auditors.

The final phase includes determining the contents of the deliverables to the client. Because specialists are accountable to different financial reporting stakeholders and face differing degrees of regulatory scrutiny dependent on their role, the role theory-accountability framework predicts they would develop distinct deliverables to satisfy the preferences of the role sender. Barr-Pulliam et al. (2021) observe that specialists in the evaluation role report tensions with auditors because auditors tend to side with their audit client over the specialists. In the preparation role, however, specialists are in more of an advocacy role with the client. Accountability theory predicts that they will support the preparer's position and tailor their deliverable to meet management's incentives.

III. Research Method

Approach and participants

Our participants are 20 valuation specialists[5] employed by global and national accounting firms registered with the PCAOB. We recruited study participants through our professional contacts at accounting firms and professional associations and by networking at valuation conferences. As noted in Table 1, all participants work for firms inspected annually by the PCAOB. Our participants are highly experienced. Nine (45%) have at least 11 years of valuation experience, and six (30%) have prior auditing experience, while nine (45%) have previously worked as in-house valuation specialists at financial institutions. Like the valuation and accounting professions, the majority (95%) of our participants identify as male (Barr-Pulliam et al. 2020). Fifteen participants (75%) hold at least a Master's degree and one (5%) has a Ph.D. Also, 16 (80%) hold

[5] Approval for this study was granted by the Institutional Review Board (IRB). Our sample size is similar to that of contemporaneous accounting studies on related issues (e.g., Griffith et al. 2015a; Westermann et al. 2015; Jenkins, Negangard, and Oler 2018; Griffith 2020; Barr-Pulliam et al. 2021).

at least one professional credential, such as the ASA (15%), CFA (45%), or CPA (35%) designations (Table 1). At the time of the interviews, all participants served in management roles, with 13 (65%) holding senior-level positions such as Senior Manager, Director, or Partner at their firms (Table 1). Participants reflect global valuation perspectives as they work in offices located across North America, Europe, and Asia-Pacific. On average, participants report preparing 195 Level 3 financial instruments annually for non-audit clients and evaluating an average of 281 annually for auditors (not tabulated). Overall, participants have the requisite experience to inform our research questions on accountability behaviors across specialists' roles.

[Insert Table 1 Here]

Procedures

We conducted semi-structured interviews to examine how specialists' perceptions and interactions with their clients differ across their roles (Miles and Huberman 1994; Lillis 1999). Our approach is informed by and follows contemporaneous best practices in field study (e.g., Power and Gendron 2015; Malsch and Salterio 2016) and qualitative methods in accounting (e.g., Covaleski, Dirsmith, Heian, and Samuel 1998; Trompeter and Wright 2010; Westermann, Bedard, and Earley 2015; Bills, Haney and Stein 2020).

We developed the interview protocol by leveraging information interviews with non-participant valuation practice leaders employed by Big 4 firms and members of professional valuation organizations and examining themes from prior research in accounting and auditing and in global regulatory releases. Feedback from the non-participant valuation leaders helped us refine our final protocol. Our interview protocol follows best practices in field study research and poses questions that encourage participants to provide detailed responses without researcher intrusion (Huber and Power 1985; Lillis 1999).

Before each interview, we provided participants with a sample complex financial instrument (CFI) based on an actual Level 3 collateralized debt obligation to orient them with the level of complexity of interest to the research team. The sample collateralized debt obligation was secured by commercial and residential mortgages with various credit ratings, subordination, and margin percentages. Our non-participant valuation leaders who reviewed the interview protocol also reviewed the sample CFI, and their suggested edits helped improve the instrument's mundane realism. We did not require the participants to provide a valuation for the CFI. Instead, we used the instrument to calibrate participants' responses about their interactions with management (auditors) in their FVM preparation (evaluation) role. We provided participants with an informed consent document in advance to allow them time to review it and obtain clarification.

Interviews began by reiterating the purpose of our study and obtaining verbal informed consent to participate. We established credibility and rapport with our participants by sharing the professional background of the research team. We also encouraged participants to provide candid responses by assuring their responses would be anonymized in our reports and kept confidential (e.g., Huber and Power 1985; Miles and Huberman 1994). At least three members of the research team participated in each interview. We conducted the interviews both in person and via telephone. Interviews lasted on average 64 minutes. To ensure a consistent tone and ensure we developed an accurate record of each interview, one researcher served as the lead interviewer. The remaining team members independently recorded detailed notes of the conversation. After the interview, we developed a single transcript, which we made available for participant review. No participants suggested changes. Consistent with best practices in qualitative research, we discontinued interviews when we reached saturation, i.e., when additional interviews provided no new insights and were qualitatively similar (Morse 2000; Sandelowski 2008).

Analysis

We used Nvivo to extract, code, and analyze our interview transcripts. We independently engaged in an iterative review of a sample of six interview transcripts to identify general response patterns (Layder 1998) as well as responses considered to represent "key, essential, striking, odd, interesting things people say or do" (Rapley 2011, 277). We then grouped responses into "themes" for each response pattern identified (Patton 2015). We also identified and coded participant sentiments that represented alternative viewpoints (e.g., Silverman 2010). We compared our coding analyses as a team and explored several theories that could potentially explain the pattern of responses, including alternative viewpoints (Malsch and Salterio 2016). Because participants serve in dual roles in the firm and consistently exhibit differing accountability behaviors in each role, the integrated role and accountability theory proposed by Frink and Klimoski (2004) appeared to fit our pattern of results best. We made a good faith effort to ensure a fit between our themes and the theoretical framework (Yin 2014).

Using the joint role and accountability theoretical lens, three researchers individually coded the remaining randomly assigned interviews. The full team met to reconcile differences. We then combined our coding files to create a consolidated dataset of quotes. The findings that follow this section represent quotes within each thematic coding category that the research team agreed were "power quotes" that succinctly articulate either participants' insights or "*proof quotes*" that represent salient sentiments among all participants on a particular theme (Pratt 2009). We include both participant sentiments that are consistent and inconsistent with the overall themes to enhance our theoretical framework (e.g., Rapley 2011) and to ensure integrity and trustworthiness in our analyses (e.g., Lincoln and Guba 1985).[6]

[6] This study was funded jointly by a grant program sponsored by the International Association for Accounting Education and Research (IAAER) and the Institute of Chartered Accountants of Scotland (ICAS). The report we

IV. Results

Phase 1: Project Acquisition, Fees and Planning

The accountability-role theory framework indicates that specialists perceive differing levels and types of felt accountability to their role sender (auditors or management in our setting) during the valuation task. Relevant to Phase 1, for events (e.g., the valuation task) where a decision (e.g., the reported estimate) must be made or defended, accountability theory suggests specialists will conform to the role sender's known views by adopting positions that are more likely to gain favor with the role sender (Lerner and Tetlock 1999). The accountability-role theory framework also explains how factors such as the duration, perceived quality, and predictability of relationships (e.g., between specialists and their clients) influence the accountability outcomes (Frink and Klimoski 2004). Our interviews yield three ways specialists' felt accountability differs across roles: 1) how specialists approach the market for valuation services, 2) how specialists plan and determine the fee structure for engagements, and 3) how specialists respond to pressure from and the perceived expertise of the client.

Specialists' market approach differs based on their role (preparation versus evaluation). Accounting firms typically house valuation partners in the consulting unit, which is accountable separately for profitability from the audit unit. Firms base compensation for valuation partners on their book of business (Donelson, Ege, Imdieke, and Maksymov 2020). Specialists who report to those partners also have incentives to contribute to the client base because their ability to maintain and develop new business is central to their career advancement in the firm (Jones and Iyer 2020). Thus, balancing a portfolio with a mix of preparation and evaluation work and client relationships

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developed was designed to inform the International Auditing and Assurance Standards Board's (IAASB) standard setting agenda. Representatives from the IAAER, ICAS, and the IAASB (collectively the "PAC") with fair value expertise reviewed progress of and provided feedback on the grant report we developed.

to achieve profitability and career growth can be challenging. Differences in felt accountability arising from the prestige associated with each role exacerbate this balancing act. Often, specialists perceive preparation work as more prestigious because of its profitability and because they believe they have greater autonomy and control when serving as preparers. Specialists also appear to feel greater accountability in the preparation role because there is a direct relationship with management, whereas, in the evaluation role, the partner is the client-facing professional and the one who is dependent on annual audit fees. As one participant described:

> I'm just going to say prestigious. There's a reason for that. Rainmaking is always more prestigious…. for non-audit work, when I do work for clients directly. The client can hire me; the client can fire me; the client makes the decision. I have to bring in that work. *P2 (Big4 – US)*

Specialists feel more accountable for client relationships in the preparation role because those relationships are critical to a profitable unit portfolio. Specialists obtain preparation work primarily through direct outreach and upselling to their firm's non-audit clients, referrals from financial institutions, and referrals from other auditors. Thus, the preparation role requires them to be more entrepreneurial and effortful than the evaluation role. Prior research generally finds that effort is positively associated with felt accountability (Kennedy 1993; Lerner and Tetlock 1999) and that accountability affects how individuals approach a task (e.g., Simonson and Nye 1992). Further, a greater emphasis on building and maintaining high quality and long duration of these relationships increases the specialists' felt accountability in the preparation role (Frink and Klimoski 2004). For example, specialists use direct outreach for preparation work, leveraging existing clients to win referrals and cultivating relationships by attending valuation conferences and other networking events to maintain high visibility and market competitiveness.

> Now, referrals would be for me, 20-25% of my business. The other part is really being out in the marketplace. I attend a lot of conferences, asset-backed securities conferences, industry conferences, and that type of thing that I've been going to for years. It's a lot of

> talking to partners and firms who have a referral or have an idea, and then it's also reaching out to friends in the firm. *P3 (Other Annually Inspected - US)*

> Trying to get to know other auditors at other firms or other valuation consultants at other firms, where their clients will need some assistance for valuation and go suggest, "Oh, well, call Paul over at X. He can do this work, and we've reviewed his work in the past." It makes for an easy and smooth process. *P4 (Other Annually Inspected - US)*

There is an advantage to being a member of the largest firms. Specialists in Big4 firms report having an advantage due to connections with banks and the breadth of services, industries, and resources that their firms offer, which they can access to identify new opportunities.

> The Big4 have so many different service lines that you can often find a client that might be right for valuation and valuation services. *P20 (Big4 - US)*

> I think a lot of business comes from years of relationship, really, and referrals. The banks really know us. It's really difficult for us to actually go out to somebody and just sell stuff. *P5 (Big4 - INTL)*

Although specialists perceive evaluation work as less prestigious and less profitable, they recognize that they exist in accounting firms as a resource to enhance the audit of fair value. Thus, the evaluation work is necessary to ensure the audit firm can provide a high-quality financial statement audit. This necessity to balance their evaluation and preparation work to ensure they generate revenue for the firm creates role conflict, as one partner described:

> I'm trying to build my Channel 2 [preparation] work, but the firm maintains the valuation practice for Channel 1 [evaluation work]. So [while] I have Channel 2 work, you cannot forget your Channel 1 focus. *P18 (Big4 – INTL)*

Specialists are less motivated to maintain client relationships in the evaluation role because they work for the auditor, who is accountable to management. Specialists recognize the importance of developing or maintaining quality relationships with their sender (auditors) and audit clients despite the duration of these relationships. This attitude toward evaluation relationships affects their felt accountability to auditors (Frink and Klimoski 2004), even though their role in the audit of fair value affects the audit client.

> If we have an audit, we've already won the [business]. My performance can influence how happy the client is with the overall audit, but it's not going to be the primary influence. And I wasn't the one who sold the thing in the first place. *P2 (Big4 – US)*

Audit fees also serve to constrain the budget available for the specialist's book of business. In prior research, specialists argue that auditors involve them later in the audit, in part, to limit the pro rata share of audit fees (Barr-Pulliam et al. 2021). Specialists are aware that auditors sometimes attempt to do the valuation work on their own to prevent engaging them: "there's often, a lot of time they complain about the fees and, I think it gets to them thinking they can do it themselves."– P19 (Big4 – US). Nevertheless, specialists do not appear to be motivated to reduce their fees or hours to smooth their relationships with auditors. Some specialists also appear to feel less accountable for maintaining relationships with their firm's audit client when in the evaluation role. These specialists seem more focused on obtaining their fees than keeping the audit client happy:

> We always just put all our hours into our system. It's up to them to charge to the client or do whatever they want there. We just let them know what our fee would be for them, and it's up to them to make sure that they get that paid by the client. *P17 (Big4 - INTL)*

The second way that role and accountability impact specialists is the degree of autonomy enjoyed in the preparation versus the evaluation role. Prior research associates autonomy with perceived power and as a response to the perceived legitimacy of the demands from a role sender (auditors and managers in our setting). For example, Lammers, Stoker, Rink, and Galinsky (2016) find that people yearn for power, not because they want to be a master over others, but because they want to feel they are the masters of their own domain and in control of their own fate. This finding is particularly germane in our setting as specialists and auditors, for example, contend for professional jurisdiction over the valuation task (Griffith 2020).

The degree of autonomy felt also impacts accountability as prior research finds a positive correlation between accountability behaviors and the perceived legitimacy of the accountability demands of a role sender (Tyler 1997). Tyler (1997) suggests when accountability pressures are perceived as illegitimate, they not only fail to produce desired effects (e.g., compliance with the role sender's expectations) but sometimes boomerang. The demands are seen as intrusive and as an attempt to control the role receiver's behavior. Accountability theory suggests that people who see the role sender as seeking to control their behavior perceive a threat to their autonomy, and they respond by asserting their own views (Lerner and Tetlock 1999).

In the preparation role, because specialists directly interact and negotiate with the client, they feel more autonomy even though the market is competitive for public clients. The autonomy and latitude in structuring the preparation service fees in line with their assessed complexity of the task influence specialists' attitudes and the way they describe the fee process for the preparation role.

> Our fee really depends on our view of how complex an instrument is. If it's a complex instrument, of course, we would budget for more time because we need to build a model. "If I know, we're just going to be competing against a Big Four or Houlihan or Duff & Phelps, and I will charge at the upper end of the range." *P5 (Big4 - INTL)*

That is, specialists price valuations based on the market and competition they face when in the preparation role. Competition is greater for public companies than private companies, and specialists accept that "the challenge is greater" P4 (Other Annually Inspected - US).

In the evaluation role, specialists feel less autonomy in establishing fees for their service because their role sender (the auditor) pre-determines the specialist's fees for their service. Auditors are also keen on emphasizing the process specialists use to assess the reasonableness of the audit client's FVM. As a result, specialists have less latitude in structuring the fee for their service. The sentiments shared illuminate a less positive attitude and felt accountability than when serving as preparers.

> On the support side, always. We're already too expensive. There's no alternative for us. It's sometimes more difficult, especially for clients that are already on the books for quite some time. *P17 (Big4 - INTL)*

> There will always be a need to negotiate because there's always budget constraints. You always have to negotiate. *P5 (Big4 - INTL)*

> [T]he auditor should be the one communicating to the client that you have to hire a specialist here. If they're too concerned about the client being upset about fees, that makes our life difficult. *P9 (Other Annually Inspected - US)*

The third way that role-related accountability theory can impact Phase 1 is how specialists plan to execute the valuation task. There are two related accountability factors in the preparation role: 1) management often focuses on the valuation outcome (e.g., whether the final FVM meets their preference), and 2) management's estimate is subject to an audit; therefore, their estimate must pass auditor approval. Research finds that judgments focused on process rather than achieving a specific outcome are of higher quality (Jacobs and Yates 1996). However, when specialists serve in the preparation role, their felt accountability to management leads to planning the valuation to satisfy management's auditors.

> I would say we interact with the client's auditors 95% of the time. Of that 95%, I would say in 20% of the engagements we'll actually discuss before we go through our entire process with the client's auditors what we kind of expect, to get any feedback from them on whether or not they think that we might be going down the wrong path altogether. *P1 (Big4 - US)*

> I always try to get the audit team on the phone upfront to avoid any sort of contentious review process. *P4 (Other Annually Inspected - US)*

Involving that client's auditor as early as the planning phase of the valuation engagement can have negative implications for both financial reporting quality and audit quality. Tetlock (1992) suggests that pre-decisional accountability in response to preferences of a known audience results in reliance on the acceptability heuristic whereby individual decisions reflect the most easily defensible outcomes. Specialists indicate they seek auditor approval of the planned valuation, so they focus on more defensible options even if the facts and circumstances of the valuation task require a novel approach. Alternatively, specialists could engage in premature commitment to a specific approach sanctioned by the audit team.

> If we develop a question that we think is pretty subjective, we say, "Look, we would waste a lot of time if we went down a certain path from a valuation perspective that it's not out of the question that your auditors are going to say this is wrong." Maybe it makes sense to get everybody on the same page before we spend that time. *P1 (Big4 – US)*

Relatedly, research finds that auditors tend to prefer evidence that is less ambiguous and more verifiable (Zimbelman and Waller 1999; Joe, Vandervelde and Wu 2017). Further, audit standards and best practices suggest auditors should exercise caution when preparing values for their client's account balances to avoid the perception that they are auditing balances they helped prepare (Levy 2018). Specialists acknowledge that there is a fine line that should not be crossed when involving the auditors in the preparation of FVMs.

> Both parties are always very sensitive to the fact that we don't want to waste time, and we want to be as efficient as possible, but we also have to make sure that auditors are not reviewing their own work, and the valuation that comes across is prepared by us and management. *P1 (Big4 – US)*

Specialists' anticipation that they will have to justify their work to the client's auditors influences the fees charged. They report demanding higher rates when they anticipate a higher degree of accountability to management's auditor.

> Through our experience, we know that a Big 4 auditor is going to expect more robust documentation around all assumptions, where a smaller shop that's less sophisticated is not going to require that degree of documentation. …Yes… we price it in... I'd be lying if I said I didn't expect more scrutiny from a Big 4 firm than a smaller shop. *P1 (Big4 - US)*

Phase 2: Establishing Scope, Valuation Approach, and Methodology

During Phase 2, specialists make decisions about the scope of work, their valuation approach, and the method they will use to derive an FVM. In the preparation role, specialists coordinate with management to determine the purpose of the valuation, the inputs and assumptions most relevant to the valuation task, and the appropriateness and suitability of available methodological approaches. In the evaluation role, specialists' decisions involve selecting FVMs for evaluation and assessing the methodological approach used to value the FVMs.

The task of determining the fair value of an asset or liability is fraught with significant judgment and measurement uncertainty (Bratten et al. 2013; Joe et al. 2015; Barr-Pulliam et al. 2019). Specialists underscore that the inherent subjectivity in FVMs allows for "five different ways that you could value some instruments and securities, and sometimes you can get very different values" (P19, Big4 - US). Prior research finds that auditors and managers both have incentives to and allow for bias in accounting estimates and grey area matters of financial reporting (Hackenbrack and Nelson 1996; Phillips 1999; Earley et al. 2018). Further, when managers are the first movers in financial reporting, there is greater potential for incentivized management bias. While auditors seek to mitigate management opportunism and reduce the risk of material misstatement, research finds they are reluctant to propose adjustments against their client's preferred position (Kadous, Kennedy and Peecher 2003; Koch and Salterio 2017). Thus, in their distinct roles as technical experts for both managers and auditors, specialists face diverging role sender preferences and experience differing felt accountability (Frink and Klimoski 2004). Further, the accountability role-theory framework predicts that specialists are likely to harness the subjectivity in valuation to meet their sender's preferences. Using the role theory-accountability framework, we identify three ways that role sender accountability influences the valuation task in Phase 2: 1) specialists' influence over the valuation scope, 2) specialists' methodological choices and judgments, and 3) specialists' response to regulatory and oversight and scrutiny.

Scoping Decisions

Auditors bear primary responsibility for evaluating the client's FVM and control how and when specialists are used on the audit. While specialists uniformly agree[7] that they should have significant influence in scoping decisions when serving in the evaluation role, felt accountability to auditors leads them to conform to auditor' preferences. Specialists typically approach the valuation task with the mindset of "if the audit team asks us to do more, we would do more" (P10, Other Annually Inspected - US). As described below, specialists appear resigned to having limited autonomy and a de minimis role in the audit process and focus solely on evaluating the reasonableness of the FVMs identified by auditors.

> We report to them. They will send us what they want us to do, instructions, and if they've done any work already, they'll send us that work. *P13 (Big4 - US)*

> They need to select for us which contracts we should look into…We don't make the selection of which contracts to use, or to analyze. …It's always up to the auditor, not us to explain how they arrived at their sample, how big the sample was and why it's sufficient for them to give comfort on the full position. That's not something that we document. We just document valuation. *P17 (Big4 - EU)*

Consistent with their accountability incentives and financial constraints discussed in Phase 1, specialists indicate that when in the evaluation role, they generally perform the minimum amount of valuation work necessary:

> In my experience, it's usually we're doing the highest-level review we can. We are going to test their methodology by building a corroborative model. If the value that we come up with is immaterially different from theirs, then we're done. *P9 (Other Annually Inspected – US)*

Failure to leverage specialists' expertise during scoping decisions on an audit can have negative implications for financial reporting quality. First, specialists note that auditors often miss

[7] Specialists believe auditors inappropriately place too much emphasis on "materiality and the range of audit uncertainty" (P2, Big4 - US) when selecting FVMs for testing and that doing increases the risk of management's first-mover bias in the estimate.

high-risk estimates, which results in last-minute and rushed evaluations. Audit quality and the financial reporting quality of audited fair values are threatened further when auditors attempt complex FVMs without specialist involvement.

> "What do we do if it's missed," and what happens if your audit teams don't engage you? I'm sure that happens all the time. Because if we get pulled into something relatively late, they're not at all in a position [to complete an adequate evaluation] ...We're not even getting [to some of those] types of documents. *P20 (Big4 – US)*

> Don't get me started, yes. There are times that I wish we had been involved because the auditor tried to do too much of the valuation work on their own. *P15 (BIG4 - EU)*

Second, auditors have insufficient valuation knowledge (Griffith, Hammersley, and Kadous 2015; Barr-Pulliam 2019, 2021), which can lead them to make suboptimal sampling decisions that do not adequately consider client risk. Specialists indicate auditors are sometimes overly focused on the low-risk elements of the client's portfolio, which can be tested without specialist support but ignore higher-risk components. Specialists' concerns are consistent with Joe, Vandervelde, and Wu's (2017) finding that auditors prefer less ambiguous and more verifiable tasks.

> They spend their whole three weeks on Level 1 alone. ***They didn't get to the other stuff***…My chief concern, and something we keep coming back to, you cannot, in our view, you cannot let audit teams [do scoping alone]. If they don't have valuation expertise when they started, you will end up with a sample of 10 instruments consisting of 12 CDOs [but] it was one drop in a bucket. (emphasis added) *P12 (Big4 – EU)*

> We have a discussion with them [auditors] where they've picked the wrong answers. They are the ones who pick the scope…you're still running a risk on the others. *P15 (Big4 – EU)*

The third issue that can arise from failure to include specialists in scoping decisions is that auditors' lack of valuation knowledge can lead to inappropriate sample selection criteria, such as randomly selecting FVMs for review irrespective of risk. A specialist was incredulous that "the auditor… [was going to] this electronic tool that is going to pick 25 of them randomly - P15 (Big4 – EU).

Research that finds accountability pressures perceived as illegitimate can fail to produce the desired behavior and backfire (Baer, Hinkle, Smith, and Fenton 1980; Lerner and Tetlock 1999). Consistent with these findings, our interviews yield that some specialists buck the norms and find ways to push back against auditors' control of the scoping.

> I would say that budget issues won't cause them to make us do a limited review. They'll try to assign less hours for us to do a full review. If that's the case, we're still going to bill the time we spend on it because we're not going to do an eight-hour job in two hours and say that it's reasonable. …. If I cannot design the scope and rely on this such that it is to my comfort level, then I will highlight to my department head and say that I'm not comfortable doing this, maybe the audit team has to meet for someone else to do. Get it? Some other resources, specialist. *P9 (Other Annually Inspected – US)*

Within their accountability to auditors, specialists employ workaround strategies to influence auditors indirectly. They dedicate time to "upskilling" and educating auditors about fair values to foster better risk assessment, sample selection, and recognition of the need for greater specialist involvement in the scoping process. In this way, specialists exhibit role-making behaviors to proactively shape interactions with auditors to align more with their own preferences (Frink and Klimoski 2004). Specialists emphasize that increased collaboration is a win-win for all stakeholders (auditors, the audit client, and the specialist) because it improves audit planning and collaboration and can mitigate contentious issues during the FMV audit:

> We have spent quite some time educating our full audit practice on small contracts, advanced contracts, swapping contracts; what they are, what the limits are, what you should look into, what you need to be careful of, to give them some more tools to assess the client's … contracts…[Now] they come to us….and ask us to make…an assessment. *P17 (Big4 – EU)*

> We recommend this [early-stage collaboration] because we don't want to have last minute surprises. *P6 (Big4 – APAC)*

Specialists have greater autonomy over scoping decisions in the preparation role than they do in the evaluation role. Management, as role senders, still "play a very big part in helping to determine the 'prep' scope" (P3, Other Annually Inspected – US), which results in a joint and collaborative approach to scoping the valuation task. Specialists appear to strategically allow client management to dictate aspects of the valuation scope to limit their liability exposure in the event of an adverse valuation outcome. Such behavior proactively mitigates potential penalties management may inflict on specialists (Mitchell 1993; Lerner and Tetlock 1999):

> What are all the, I call them my legal terms like if somebody makes a mistake or if there's a ... What's the level of liability? We put that together in this contract and it's reviewed by the people on the valuation side of the client, by the legal side, and we come to an agreement. *P3 (Other Annually Inspected – US)*

Two primary factors drive specialists' scoping decisions in their preparation role. First, specialists are acutely aware of management's accountability to their auditors and oversight authorities such as the SEC. As discussed in the development of the fee structure in Phase 1 of the valuation task, specialists are keen to develop a valuation approach that is defensible to stakeholders who have oversight authority on management's estimates. Specialists ensure their scope includes identifying and fortifying areas of known vulnerability to scrutiny so that their role sender, management, has a defensible valuation:

> There's a lot of scrutiny around it, so that will have a significant impact on the scope. *P1 (Big4 – US)*

> [We] help them package it [the FVM] into a format that will be acceptable. We basically take them from the trading desk and make it accessible to the controller's office, then go to the SEC. They have a good handle on value. *P20 (Big4 – US)*

Second, specialists establish their scope in a way that is consistent with management's preferences (Frink and Klimoski 2004). Early in their preparation, specialists actively discuss management's desired valuation outcomes to ensure they understand management's expectations (Lerner and Tetlock 1999).

> [W]e'll have a high-level initial discussion on what the client expects the intangible assets are going to be, based on the nature of the target. *P1 (Big4 – US)*

Approach and Methodological Decisions

Some prior fair value auditing research reports that auditors prefer to test management's estimates (Griffith, Hammersley, and Kadous 2015a). Specialists, however, indicate that of the two primary approaches available to evaluate the audit client's estimates (1: verifying model parameters, and 2: developing an independent estimate), they "…prefer the second [approach]" (P16, Big4 – EU). In this regard, specialists' accountability to auditors motivates them to select the process that yields auditors' preferred outcome rather than auditors' preferred process. Specialist's responses indicate that a key motive for adopting the independent estimate approach is that (1) the subjectivity inherent to fair values allows them to more readily develop an estimate that closely aligns with management's estimate, and (2) it is efficient.

The independent estimate approach aligns with the role senders' (auditors') preference to minimize adjustments to keep the audit client happy. Specialists achieve the goal of minimizing the likelihood of a material audit difference by strategically selecting inputs and assumptions to approximate the client's initial position.

> [When there is disagreement], I really have to come up with my own methodology and, I would say the input has to stretch a little bit. I need to deep dive a little bit on the input side in all this, see what could easily work...What we're trying to achieve is, we try to be, in those numbers, try to be a bit more pragmatic in that sense that it has to meet certain common value. *P18 (Big4 – APAC)*

Another way specialists can approximate the client's initial position is to input the client's assumptions in the models the specialists' team develops.

> We use our own methodology, and we use our own assumptions but some of the assumptions may overlap, so we might use the [client's] specialist's assumptions in the places where they overlap. Generally speaking, if I think the [client's] specialist's assumption is reasonable, I don't want to use our own assumption. *P2 (Big4 – US)*

Specialists will also consult the client's preparing specialist to gain insights into how they developed the FVM.

> [T]here's usually discussions with their specialist upfront to talk through anything about how they're going to value it. Usually, they can give us a high-level overview. *P11 (Other Annually Inspected – US)*

Auditors' control over the scope of work, restriction of the specialists' fees, and accountability for their unit's profitability collectively will motivate specialists' to be efficient in their method when serving in the evaluation role. The independent estimate approach is preferred for efficiency for several reasons. Specialists argue that adequate assessment of the reasonableness of management's inputs and assumptions requires more time and resources that extend beyond their allocated scope:

> Ninety-eight to ninety-nine percent of the time, we're just providing an independent fair value based on a modeling of that security and our inputs and assumptions. We don't separately look at the client's inputs and assumptions for the most part and get a separate analysis over those. Because that's adding complexity and things that we should not be getting into, and we, quite frankly, don't have the time or the resources to do all that. *P19 (Big4 - US)*

The independent approach is also efficient because it can often be challenging for specialists to access the client's models and assumptions necessary to assess these factors' reasonableness. Specialists offered financial institutions (banks) as a salient example of the challenges in obtaining the requisite information.

> I'd say it falls into [whether there is] … access to the trading info that other people are not privy to, but they're clearly representative of the market. Do they have access to the unique information about a portfolio or a specific instrument, or is there just general market color that not everybody has access to? …Different entities have different access points to the market. *P14 (Big4 – US)*

> The banks will not release any form of information to the audit team. Not their models, not their inputs, not even their assumptions…The banks are very cautious. They will not release it. *P5 (Big4 – APAC)*

Further, even when clients agree to share methodological information with specialists, they sometimes stall the process by prolonging the time to share the information. This apparent stall tactic leads to a protracted process, as described in the sentiment that follows:

> When we asked for more data, the specialist is just, 'here's our assumptions and here's the output'… They did not really want to share their model. When we asked for more, we would get a trickle of information at a time. *P11 (Other Annually Inspected – US)*

Last, accountability to the auditor's regulator raises concerns from specialists that if they choose to use the client's inputs and assumptions in their independent models, how they report variations or deviations from management's method could trigger audit regulators to misinterpret their findings. One specialist articulated this point as follows:

> I'm recalculating, and it's the Monte Carlo Simulation. I'm expecting that the number will come out pretty close, but I'm not expecting it will be the exact even if I'm using exactly their assumptions because it's a simulation and simulations have simulation. Not that I'm ever going to call it an error because PCAOB might get confused. *P2 (Big4 – US)*

Similar to the evaluation role, the inherent subjectivity in valuations influences specialists to prepare valuations in a manner consistent with management's preferences (Hackenbrack and Nelson 1996; Lerner and Tetlock 1999; Kadous et al. 2003; Kjellevold 2019). Specialists acknowledge that there can be "reasons to be aggressive" (P2, Big 4) and that complex estimates provide opportunities to arrive at a particular outcome:

> There is no one single absolute way to value…the complex stuff…No two valuators will come up with the exact same answer because of the difference in terms of their methodology. ...At the same time, there's no right or wrong. *P5 (Big4 – APAC)*

Our discussion in Phase 1 notes that specialists' financial accountability motivates more attention to client service when in the preparation versus the evaluation role. Our interviews yield that during Phase 2 in the preparation role, specialists work to ensure the estimates they prepare for management are justifiable to constituents who scrutinize management's estimate. For example, specialists discussed the detailed attention directed at validating the data used in their models. We did not observe this protective behavior in their description of the evaluation role.

> You still need to know that the tool that you're using can actually be in other departments. To actually ensure that when we use Bloomberg, we can actually rely on it, we start the

> calendar year with a two-week user acceptance test on all the vendors that we get data, scripts, and tools from, not from Bloomberg. Validate everything. *P12 (Big4 – EU)*

Another example of specialists being protective of the client when serving in the preparation role is how they react when they perceive that the client's information source might be too biased. Specialists report that third-party valuers can provide data to the client that they believe might be seen as too aggressive by those who have oversight authority over management. They believe overly aggressive inputs can diminish the credibility or justifiability of the valuation they prepare. They push back against using such sources: "For example, [when inputs are provided by] the bank that uses its own developed model, that makes me very, very suspicious." (P12, Big4 – EU).

A key observation from our interviews about Phase 2 of the valuation task is that specialists have a strong felt accountability due to allegiance to the valuation profession regardless of their role. Specialists note that in both roles, they follow established norms and expectations of other competent valuation specialists. Accountability to the profession effectively sets a boundary for their valuation-related judgments and limits their willingness to stray too far towards their client's (auditors or management) preference:

> …because we all review each other's work, there's some consensus. Then someone comes up with a better mousetrap, and you have to decide, is it really a better mousetrap, or is it really just trying to be squirmy?... There's no competitive advantage to being the only one who does valuation in a certain way. *P2 (Big4 – US)*

Phase 3: Preparing the Estimate and Managing Relationships

Psychology research suggests that when inter-team relationships take a more unified or collectivist approach, team members are more "likely to possess internally assumed accountability to serve the needs and interests of [related] stakeholders" (Wang, Waldman, Ashforth 2019, p. 190). For example, Bauer and Estep (2019) find greater collaboration and coordination among auditors and IT specialists when they share a collective identity. Prior valuation research reports that when specialists serve in the evaluation role, auditors are often in competition with them over the professional jurisdiction of the work also performed by specialists (Griffith 2020). That competition for control over the valuation work contributes to tensions in the auditor-specialist alliance (Barr-Pulliam et al. 2021). Kjellevold (2019), however, documents specialists and their clients enjoy a more amicable relationship when specialists serve in the preparation role. Thus, the prior research suggests that specialists' felt accountability to their clients differs depending on the role they occupy – evaluation versus preparation.

As discussed in Phase 1, specialists are generally motivated to maintain positive relationships in their preparation role because they have greater autonomy over the valuation process and are focused more on client service satisfaction. These accountability-induced behaviors flow through to Phase 3 of the valuation task. Consistent with prior research, specialists perceive the evaluation role as more contentious, in part because they believe auditors lack respect for valuation work and are reluctant to follow the established processes specialists approve. Specialists also believe that auditors ignore the risk FVMs pose to the audit and do not appropriately seek specialists' assistance when auditing fair values. Rather than managing relationships, specialists' responses imply they identify coping mechanisms that allow them to (a) improve coordination and (b) mitigate the tensions that could threaten the quality of FVMs reported in audited financial statements.

In the preparation role, specialists mainly provide a service to managers who recognize they lack the expertise to estimate FVMs independently. However, in the evaluation role, specialists often encounter auditor hubris and a mistaken view that they are well-qualified to evaluate FVMs without the specialist's support. Our interviews reveal that specialists experience frustration when auditors deliberately try to evaluate FVMs independently or do not allocate enough of the audit budget to compensate for the specialist's support. This practice increases tensions when auditors and specialists collaborate and poses significant risk exposure for the audit firm. Discussing the scenario where auditors attempt to use models from prior years or other customers to calculate FVM without specialist assistance, a specialist queried:

> You [auditors] run the numbers. You don't know what is there in the model. You just rerun it. You're in to save cost; you don't engage me…why would I run the risk of doing that? *P18 (Big4 – APAC)*

In the preparation role, specialists have greater control over the communication with the client and can directly coordinate the valuation process with the client because it is their client (versus the auditor's client). However, in the evaluation role, there is friction when specialists perceive that auditors are reticent in providing the evidence from the audit client that they need to perform their work. Specialists are frustrated by what they perceive as auditors' failure to facilitate adequate, timely communication with the client, which inhibits their ability to complete the valuation task:

> At times we get a bad price, but it's just a matter of some documentation that the client has provided, but the audit team just says, 'by the way we forgot to send you this or that.' Don't do that. The checklist that we provide [to auditors] includes everything to give us. Just load it in the system so I don't have to call you. *P8 (Big4 – US)*

With respect to maximizing revenue included in the specialist unit leaders' book of business, specialists have limited incentive to "keep auditors happy" because they are an internal "annuity" client (see discussion for Phase 1). However, some specialists take strategic steps to minimize the tensions they face in the evaluation role, such as upskilling auditors on valuation complexity or tenure with the audit team. Specialists suggest that this strategy fosters a more collaborative and reciprocal relationship with auditors, thereby improving their access to information and ability to perform valuation work more generally. Specialists' comments below illustrate how these tactics yield enhanced relationships with auditors:

> I have one of my audit teams I've been working with them for three years now, reviewing both derivatives and structured products for them. It's really nice because they understand what we are doing ... They understand the deadlines. They understand the products. It's very easy to work with them, and it is actually nice to work with them. *P8 (Big4 – US)*

> In a way, we become friends, and whenever there is opportunity, they will be a friend to us…It builds the current relationships. …it is good when you try to help them and to highlight issues for them. *P18 (Big4 – APAC)*

Phase 4: Negotiations and Reporting of Final Measurement

During Phase 4, specialists focus on finalizing the FVM or concluding on the reasonableness of the client's estimate. They also determine the contents of the valuation report to provide to the client (the deliverable). The deliverable typically includes a point estimate in the preparation role and a valuation range in the evaluation role, along with schedules that support their recommendation. The inherent subjectivity and uncertainty in valuation mean a high likelihood of disagreement between the specialists and clients and negotiations over the contents of the deliverables. When in the preparation role, management's incentives for specific outcomes (discussed in Phase 2) can trigger specialists' felt accountability to arrive at estimates that satisfy management's preference.

Nevertheless, countervailing accountability forces such as the valuation profession and indirect accountability to management's auditor temper the likelihood that specialists will simply acquiesce to management's preference. In the evaluation role, specialists also experience conflicting accountability forces to satisfy auditors' tendency to please the client while simultaneously safeguarding the audit firm's reputation and the auditor's accountability to regulatory scrutiny. These various sources of felt accountability can collide during the negotiations and review in the final stage of valuation work.

In both preparation and evaluation roles, specialists will have clients who have preferences for a point estimate that falls within a specific range. But a key difference is the range of specialists' responses to their client's preference. When serving as preparers, specialists note that the most difficult negotiations occur with clients who are least sophisticated and attempt negotiating for a specific amount: "they are fixated on a value…[because] they have no idea what is the right number … They are the toughest because … they refuse to accept reality" *– P5 (Big4 – APAC)*. But felt accountability to manage client satisfaction leads specialists to temper how they respond to clients' negotiation demands. Specialists appear to internalize their disagreement rather than vocalizing their objections:

> We will listen to their thoughts, but we are not going to take their word. *P6 (Big4 – APAC)*

> To be honest, we deal with it …We really aren't going to get involved in an argument with them. *P13 (Big4 – US)*

> I don't say this out loud to them, but I say, "That's great, and I think I should be making \$2,000,000 a year too." Right? *P4 (Other Annually Inspected - US)*

Specialists' responses indicate that when, within reasonable boundaries, they can justify accepting the client's position, and they will retroactively adapt their estimates to meet management's preference. Interestingly, specialists oppose being directed to follow specific client demands, but they are willing to be guided into the client zone of acceptance.

> I don't need to be tied exactly to their figure, but it helps me add some additional support…I definitely do not use just a number that management says, "We need it to be worth \$100 million, and I really need you to hit that number." *P4 (Other Annually Inspected - US)*

During negotiations in the preparation role, specialists employ various persuasion tactics over a direct approach because their accountability focuses on relationship building and client retention. Our interviews yield three cooperative strategies specialists employ to resolve client disagreements: 1) pressing the client for additional information, 2) using the client's auditor or the auditor's specialist as a foil, or 3) being tactful in pushing back against the client.

Specialists request additional information that can either validate management's preference without threatening their accountability to maintain professional integrity or serve their goal of bringing the client to accepting their position. For example, a specialist reported telling the client if legal counsel would confirm the legal intent to support a particular approach, then they would concede.

> If they can get legal counsel on the phone, who help[ed] draft those reports…to confirm interpretation - really is what the spirit of that award... That's helpful. And that can help let us or the valuation team at the audit firm get comfortable with our conclusion or vice versa. *P4 (Other Annually Inspected – US)*

Specialists capitalize on their experience and knowledge gained from serving in the evaluation role to remind management their FMV must pass muster with the audit team to move the client towards their view. For example:

> We already understand what the audit specialist thinks…Usually, when the client says that the value seems strange, we say, "Look, your auditors are going to test this. They're going to test it the same way we would if we were auditing. If we were to adjust things to something that the clients had in mind, then the auditors wouldn't be able to get comfortable with it, and it wouldn't benefit anyone to do that. *P11 (Other Annually Inspected – US)*

Beyond simply reminding the clients of their accountability to auditors, specialists will bring the client's auditor into the negotiation discussion to help them come to terms with the FVM.

> There is some variance … where it can get very tricky ... It's sometimes necessary to go get audit and valuation involved. *P4 (Other Annually Inspected – US)*

Specialists are reasonably confident that they have an ally in the auditor or the auditor's specialist because, as noted in the Phase 1 discussion, they usually dialogue with the management's auditors very early on during the valuation task. Thus, they use the auditor to force the client into agreement.

> If the client is not comfortable with it, usually we would get on the phone with them and their auditor's specialist, talk through it, iron out any of those issues. Most of the times, the client doesn't have much of an option. *P11 (Other Annually Inspected – US)*

Under the third negotiation tactic, specialists report that they call the client and allow them to vent and listen to their views until they can say, "Okay. Everybody agrees now…we have agreement." *P5 (Big4 – APAC)*. However, when all the persuasion tactics fail and management remains unwilling to change their opposing view, specialists will protect their professional reputation by inserting caveats into the deliverable.

> There may be a section… where we say, "These are the assumptions that were provided to us by management, and we performed our calculation in accordance with these assumptions." We make sure that whoever is reading the deliverable understands exactly what we did or did not do and how that impacts our work. *P11 (Other Annually Inspected – US)*

As a last resort, if management is unyielding, specialists report taking the extreme measure of walking away from the engagement. That is consistent with a legitimate accountability response where specialists respond to management's threat to their autonomy by vigorously asserting their views (Baer, Hinkle, Smith, and Fenton 1980; Lerner and Tetlock 1999).

> I always walk away if a client is trying to be too aggressive. I always have to leave through the back door because they just don't want to see me again. *P15 (Big4 – EU)*

In the evaluation role, because specialists focus less on client satisfaction and relationship management than in the preparation role, they are more direct in responding to auditors and the audit client during disagreements. As in the preparation role, when it is defensible to change their valuation to match the auditors' (and audit client's) preference, specialists focus on finding a way to work around differences and appease the auditor. Specialists' felt accountability to auditors can lead them to examine avenues to reduce variations with the client's value. Specialists consider avenues such as obtaining additional information from the client, revising their model inputs, or justifying the client's assumptions to produce a valuation range that corresponds to the client's valuation. Specialists report that "Usually we will work together to get your [the client's] right answer." (*P9, Other Annually Inspected - US*). Frink et al. (2008) find that felt accountability can influence *how* individuals think.

> If we have one price and their (audit client) specialist has a different price, we say, okay, what's the reason for the difference, and if they come up with a reasonable explanation for an assumption then we can revalue the price using different assumption or something and then come up with a different price. *P8 (Big4 - US)*

While revising the audit estimate might contribute to positive relationships between auditors and specialists and the audit client, specialists' willingness to change their evaluation to match the client's preference, if material, can result in a "hidden audit adjustment." Material changes to audited amounts that avoid a proposed audit adjustment are not required to be discussed with the audit committee or disclosed to users of financial statements.

However, when specialists believe the audit client's estimate is not reasonable, they will explicitly defer to auditors and emphasize that responsibility for the task lies with the auditor. In this way, specialists seek to absolve themselves of responsibility for the final valuation by passing the valuation judgment onto the auditors and leaving them to resolve the disagreement with the client:

> A lot of times, we'll say, look, we don't agree with this. Most of them won't just roll over and say, fine, we'll just change it. Well, it's up to the audit partner in the end to make that decision. *- P13 (Big4 - US)*

Some specialists will push auditors into a stronger negotiation stance with the audit client. Specialists report that when the auditor attempts to persuade them to accept a client position that they feel is invalid, they will ask auditors to arrange a meeting with the client. Specialists believe that unfettered access to the audit client facilitates more efficient specialist-to-specialist discussion and, ultimately, leads to more effective resolution:

> Initially, they were a bit reluctant in taking us all along. As soon as they got us with the client; also, the client started to feel a bit more insecure. We ended up talking with their specialist. The whole process went a lot smoother then. In the end, the auditor, as well as

> the client, were pretty happy with the end result. In the beginning, they were not so happy. **Differences mean problems. Problems are not appreciated in this world**. (emphasis added) *P17 (Big4 - EU)*

However, as a last resort, specialists sometimes hold their opposing viewpoint in valuation disagreements with auditors and push back against the auditor when they feel auditors' expectations are unsupportable and jeopardize their professional standard:

> …but this is a reasonable estimate, and this is what I am willing to provide on paper. If this is not what you like, then you go somewhere else…Every now and then, we come into those discussions. *P16 (Big4 - EU)*

Valuation Deliverable

Specialists prepare detailed deliverables in both roles they serve that clearly document the valuation process and provide justification for the judgments exercised. Specialists believe that: "documentation is critical because it's important to explain the thought processes that you use to make your judgment" (P14, Big4 - US). However, specialists cite differences in their documentation approach depending on their role. In the evaluation role, the salience of auditors' risk exposure due to regulatory inspections attenuates specialists' accountability to prepare documentation that leaves a detailed audit trail, documents how differences with the client were resolved, and their opinion of the preparing specialist's competence.

> If we have some research papers that we can quote …they are uploaded in the system so every auditor can access these research papers. *P8 (Big4 - US)*

> We always did some sort of an audit trail so we could prove … what we have done three months later, but that process is much more extensive. You need to store every single screenshot, every single data quantity used. You need to be really, really certain that you are able to prove where that data has actually come from. *P15 (Big4 - EU)*

However, in the preparer mode, the specialist is cognizant of the litigation risk associated with their valuation choices if the client receives an SEC Comment Letter, has a restatement, or faces other negative financial reporting or audit outcomes. As such, the specialists work to ensure that their work is defensible and develop their deliverables to protect themselves from lawsuits. Firms also implement strong internal review processes for this reason.

> If something goes wrong, the damn client wants to sue us. We are very mindful of that fact in what we do, so we undergo a couple of levels of internal reviews before they release stuff to the clients, just to make sure. Any issues get documented. *P5 (Big4 - APAC)*

V. Conclusions and Implications for Research

Both auditors and financial statement preparers rely on valuation specialists to develop FVMs for complex financial instruments. In response to increased regulatory security of auditors' use of specialists (PCAOB 2015b), researchers have begun to peek inside the black box of the valuation task by examining how specialists work with auditors (e.g., Boritz et al. 2020; Barr-Pulliam et al. 2021) and management (e.g., Kjellevold 2019), and the challenges that arise in these collaborations (e.g., Cannon and Bedard 2017; Glover et al. 2019). However, evidence on the impact of audit firm-employed specialists on financial reporting is largely absent from the literature. These specialists simultaneously occupy multiple roles (e.g., preparation, evaluation) with multiple role senders (e.g., auditors, management) with differing expectations. They offer a unique window into the measurement uncertainty inherent in the financial reporting process.

We conducted semi-structured interviews with 20 experienced valuation specialists employed by global and national accounting firms. Based on these interviews, we develop a theoretical framework informed by role and accountability theories to examine how specialists differentially manage interactions with their clients across the four phases of the valuation task: (1) project acquisition, fees, and planning; (2) establishing scope, valuation approach and methodology; (3) managing relationships; and (4) negotiations and reporting of final measurement.

We find that increased financial reward and greater autonomy over the valuation process influence specialists to be more amenable to client preferences in their preparation role relative to their evaluation role. While specialists prioritize relationships with their FVM preparation clients, they exploit the inherent subjectivity and measurement uncertainty in FVMs to pursue valuation approaches that align with both auditors' and management's valuation objectives. Further, specialists use their knowledge of valuation vulnerabilities and areas that attract high levels of auditor and regulatory scrutiny to proactively develop FVMs that can withstand this scrutiny. Specialists often employ tactical strategies to minimize valuation differences in their evaluation role in response to pressure from auditors to minimize conflict with the audit client.

Examining specialists' perceptions of interactions with auditors and management is important to academics, regulators, practice, and financial statement users. Our research complements recent studies that examine auditor-specialist interactions during the audit of fair value (e.g., Griffith et al. 2015a; Griffith et al. 2015b; Boritz et al. 2020; Griffith 2020; Barr-Pulliam et al. 2021). Whereas the current literature primarily represents auditors' FVM perspectives, our study adds perspectives of specialists to the discourse. In addition, understanding specialists' interactions with their clients can provide insights into potential root causes of the deficiencies in the audit of fair value noted by regulators and threats to financial reporting quality (e.g., Zimmerman et al. 2020). Understanding the root causes of FVM reporting deficiencies is an important first step in identifying, designing, and implementing interventions that could improve audit and financial reporting quality.

Further, understanding how role duality influences accountability among professionals complements prior research examining role duality among professionals such as auditors (Kowaleski, Mayhew and Tegeler 2018), tax professionals (Marshall 2021), and segment controllers (Maas and Matejka 2009). Our valuation-specific setting is more nuanced and contextual, thereby extending the literature and providing opportunities for future research. Our study answers calls for research from regulators and other capital market stakeholders to peel back the onion of FVMs reported on financial statements and provide insights into the factors that influence these valuations.

Our research is not without limitations. We use a descriptive approach to understand the factors that differentially influence role duality among specialists and how it affects their accountability behaviors. We note that some factors, like regulatory scrutiny, impact multiple phases of the valuation task and both roles. Accordingly, we acknowledge two limitations of our research. First, we do not attempt to quantify or otherwise measure the extent of the relationship between role and accountability. Second, we introduce but do not fully examine the interrelationship of our accountability factors across our framework. Future research can examine the extent to which, and in what contexts, the factors we identify affect specialists' accountability behaviors and outcomes associated with the valuation task. Future research can also examine interventions to effectively mitigate the negative accountability behaviors that we identify. We do not suggest, however, that such interventions be relegated to specialists only. Lastly, our study is not exhaustive. There could be additional factors that inform the influence of role on accountability among valuation specialists. Future research can examine this contextually rich setting to identify other important factors that extend the themes we present.

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FIGURE 1: Role-Accountability Theory Framework

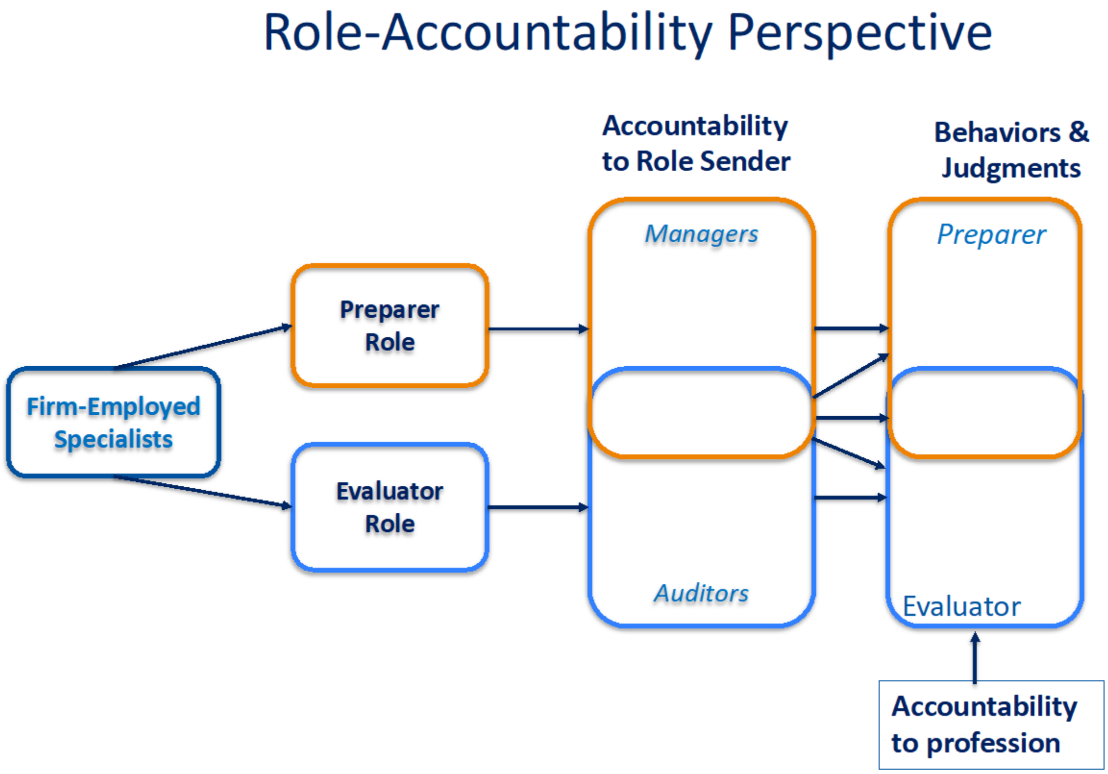

FIGURE 2: Phases of the Valuation Task

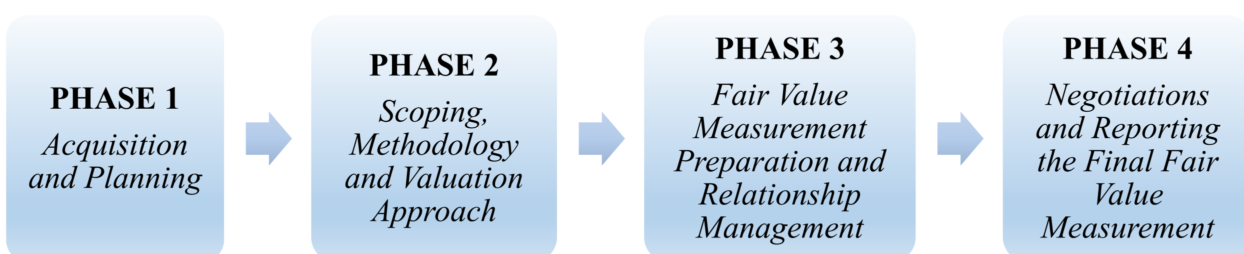

TABLE 1: Interview Participant Demographics

Participant ID	Firm Type	Location	Title	Degree	Certification(s)	Experience		
						Valuation (in years)	Audit	In-House Valuation
P1	Big 4	US	Mgr	Bachelors	ABV, CPA	6 – 10	**Yes**	No
P2	Big 4	US	Mg Dir	Ph.D.	-	> 15	No	**Yes**
P3	Other Annually-Inspected	US	Dir	Masters	CFA	6 – 10	**Yes**	**Yes**
P4	Other Annually-Inspected	US	Dir	Bachelors	ASA	> 15	No	No
P5	Big 4	APAC	Assc Dir	Masters	-	> 15	No	**Yes**
P6	Big 4	APAC	Mgr	Masters	CFA, FRM, WSET	6 – 10	No	No
P7	Big 4	APAC	Mgr	Masters	CFA	6 – 10	No	**Yes**
P8	Big 4	US	Mgr	Masters	CAIA, CFA, CPA	6 – 10	**Yes**	No
P9	Other Annually-Inspected	US	Mgr	Bachelors	CFA	6 – 10	No	**Yes**
P10	Other Annually-Inspected	US	Mgr	Masters	CFA	6 – 10	No	**Yes**
P11	Other Annually-Inspected	US	Mgr	Bachelors	CFA, CVA	6 – 10	No	No
P12	Big 4	EU	Ptr	Masters	CPA	6 – 10	**Yes**	No
P13	Big 4	US	Ptr	Bachelors	CFA, CPA	11 – 15	No	No
P14	Big 4	US	Ptr	Masters	CPA	> 15	No	**Yes**
P15	Big 4	EU	Dir	Masters	ABV, ASA, CPA	11 – 15	**Yes**	No
P16	Big 4	EU	Ptr	Masters	-	6 – 10	No	No
P17	Big 4	EU	Ptr	Masters	-	11 – 15	No	**Yes**
P18	Big 4	APAC	Sr Mgr	Masters	ACT, CFA	6 – 10	No	No
P19	Big 4	US	Sr Mgr	Masters	CPA	11 – 15	**Yes**	No
P20	Big 4	US	Sr Mgr	Masters	ASA	> 15	No	**Yes**

Variable Definitions: Firm Type *includes* Big 4 and other firms inspected annually by the Public Company Accounting Oversight Board. **Location**: APAC-Asia Pacific; EU-European Union; US-United States. **Title**: Mgr-Manager; Sr Mgr-Senior Manager; Assc Dir-Associate Director; Dir-Director; Mg Dir-Managing Director; Ptr-Partner. **Certifications:** ABV-Accredited in Business Valuation; ACT-Certificate in International Treasury Management; ASA-American Society of Appraisers; CAIA-Chartered Alternative Investment Analyst; CFA-Certified Financial Analyst; CPA-Certified Public Accountant; CVA-Certified Valuation Analyst; FRM-Financial Risk Manager; WSET-Wine Spirit and Education Trust.