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INTERESTS AND OPINIONS IN FAIR VALUE ACCOUNTING

-AN EXAMINATION OF COMMENT LETTERS

Abstract

In this study we examine 93 comment letters that have been submitted on the Financial Accounting Standards Board's *Exposure Draft, a Proposed Statement of Financial Accounting Standards on Fair Value Measurements*, below referred to as the Exposure Draft. To keep this study as specific and concrete as possible we have limited it to examine the comments on one of the subjects described in the Exposure Draft, which is the Fair value hierarchy concept.

We investigate whether any major opinions and concerns relating to the Fair value hierarchy concept can be revealed in the comments put forth by the 93 constituents. We further investigate if these opinions and concerns (if any) can be explained by the four constituent types, here defined as attesters, preparers, academics and users of accounting information. If it is revealed that the constituents classified as a certain constituent type share similar opinions and concerns, this study would show that interest groups exist. This would also be in line with what some theories predict and previous studies show. More specifically this study is concerned with finding patterns of opinions and concerns among the comment letters (constituents) and it tries to explain whether these opinions are supported by similar types of constituents.

This study reveals six major opinions which are formed into six groups. These opinion groups are *the Traditionalists, the Freedom fighters, the Multiple valuation techniques opponents, the Modifiers, the Accepters* and *the Nonsayers*. After careful examination three major concerns can be observed within these six opinion groups and these concerns were also formed into three groups consisting of constituents with user concern, preparer concern and those constituents with no observable concern.

The results of the study show that the four constituent types provide a rather weak explanation for the opinion groups and concerns found because it was revealed that similar opinions and concerns are not shared by the same constituent types. Further, these results are contrasted with the two accepted theories, positive accounting theory and worldview theory, which together explain the opinions and concerns among 83% of the 93 constituents.

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1. Introduction

This chapter describes the background and the problem area of this study. The question and purpose, as well as the limitations in scope of this study are also presented. The chapter ends with an outline of this paper.

1.1. Background

When the Financial Accounting Standards Board (FASB or the Board) was established in 1973, one of the most significant changes in the U.S financial standard-setting was a formalized open due process wherein organizations affected by the standards could actively lobby for or against proposed changes.[1] This procedural change was introduced because the actions of the FASB had and still have an impact on many organizations and it is essential that the Board's decision-making process is even handed. Accordingly, the FASB follows an extensive "due process" that is open to public participation and observation. This process is used for major agenda projects and it was modelled accordingly to the Federal Administrative Procedure Act.[2]

A procedure for developing accounting standards has been established by the FASB, but not all of the steps in the procedure may be necessary. Many other steps which are not specifically required by the Board's Rules of Procedures are also followed during the course of the projects.[3]

In the FASB procedure there is one step in which the FASB presents new standards or changes of current standards in Exposure Drafts that are made public. The Board encourages and invites comments on all matters in these Exposure Drafts and mostly the Board would like the constituents, which are individuals and organizations commenting on the Exposure Drafts, to comment upon a number of issues stated by the Board. These issues are stated in the beginning of the Exposure Draft in a notice for recipients and they are connected to the different subjects and paragraphs in the Exposure Draft. Constituents are also encouraged to bring up own additional issues and the Board would like to know the reasons for certain positions taken and alternative ways which the Board should consider instead.

The commenting by the constituents is mostly made in letters, which are made public when sent to the Board. Consequently these letters are called comment letters and the information in these letters might be of help when the Board revises Exposure Drafts in order to set final standards that correspond to the different constituents' interests and needs.[4]

1.2. Problem area

It is said that individuals and organizations have incentives to lobby for changes of standards in the standard-setting procedure when they are affected in various ways by their implementation.

A common circumstance on organizational level is earnings management which is defined as the attempt by corporate managers to influence short-term reported income. Managers may attempt to manage earnings because they believe reported income influence creditor and investor decisions and mostly managers choose accounting methods that maximize earnings and the firm's market value.[5] However, the occurrence of earnings management will not be in focus in this study. It is mentioned here because earnings management shows that managers have incentives to choose accounting

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[1] Saemann (1999), p. 2.
[2] www.fasb.org.
[3] Ibid.
[4] The interested reader can find the whole FASB procedure in Appendix I.
[5] Schroeder et. al (2003), pp. 149-150.

methods for various purposes. Similar incentives have also been found in the standard-setting procedure in which managers, as well as other individuals and organizations can influence accounting methods at an early stage by being part of the standard-setting procedure. Individuals and organizations have incentives to lobby for the implementation or changes of certain standards. In other words, they lobby for the implementation of standards which in the end might correspond to their own views and interests. This phenomenon is supported by positive accounting theory and worldview theory.

Positive accounting theory further states that individuals and organizations with similar interests lobby for the same kind of standards, assembling them into the same interest groups. This theory thus states that different interest groups can be found within the standard-setting procedure. This fact was also proven in a previous study[6] in which comment letters were studied as a means to reveal interest groups.

The fact that there are incentives for individuals and organizations to lobby in the standard-setting procedure and interest groups raised our interest for the FASB standard-setting procedure. We specifically became interested in studying the interests and opinions in comment letters. For this purpose the *Exposure Draft, a Proposed Statement of Financial Accounting Standards on Fair Value Measurements* issued on June 23 2004 (the Exposure Draft) was chosen. Any Exposure Draft made public with an agreeable amount of comment letters could have been chosen. But we made this choice because fair value accounting today is a topic that is subject to a lot of discussions.

The Exposure Draft with its 14 issues stated by the Board has received 93 comment letters which we intend to examine.

1.3. Purpose and question

The purpose of this study is to gain an understanding of the different comments expressed by the constituents in the 93 comment letters as well as observing whether there are similar interests behind these comments and whether our findings can be supported by theories. We are specifically concerned with trying to find patterns of opinions among the various constituents and also to find out whether these opinions (if any) are supported by similar types of constituents, here defined as attesters, preparers, academics and users of accounting information. If evidence of such patterns can be revealed, it will be in support of previous findings and theories that are presented in this study. We would like to point out that this study does not intend to find explanations for a general population. That is; the 93 observations are not to be seen as a sample in a bigger population.

Concretely, this study is concerned with finding an answer to the following question;

1) *Can any major opinions about fair value measurements be found in the 93 comment letters responding to the proposed statement of Fair value measurements?* and 2) *if there are major opinions found in these comment letters, can they be explained by interest groups as prevailing theories predict?*

1.4. Delimitations

In the initial stage of this study the Exposure Draft and all the 93 comment letters were read. We found that many of the constituents had responded to all 14 issues stated by the Board and also had presented own additional issues. Consequently some comment letters are quite dispersed in their comments and can be as long as 30 pages.

The Exposure Draft, which is approximately 107 pages, consists of the proposed statement on fair value measurements (the proposed statement) including four appendixes, notice for recipients and a

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[6] Watts & Zimmermann (1978 and 1979).

summary. The proposed statement amount to eight pages (excluding the appendixes) and are divided between eight different subjects, ordered in paragraphs. The notice for recipients, which is connected to the proposed statement, contains 14 issues stated by the Board.

To be able to keep this study as specific as possible we have limited this study to examine the comments on one of the subjects in the proposed statement and, to the subject, two related issues. The chosen subject is the Fair value hierarchy concept, which consists of level 1, level 2 and level 3 estimates. The concept of level 3 estimates is of special interest among these three levels since this level requires the use of multiple valuation techniques. The Fair value hierarchy was chosen since it seemed to be of particular interest to the constituents and the concept is also an important part of the proposed statement.

The two issues relating to the Fair value hierarchy concept are issues five and nine. Issue five concerns the concept of the Fair value hierarchy while issue nine concerns the level 3 estimates within the Fair value hierarchy. Also additional issues and comments put forth by the constituents connected to this limited area are included in our study. Consequently, we studied the 93 comment letters with the focus on the Fair value hierarchy and related information.

The Fair value hierarchy concept and the two issues are further elaborated in chapter 3.

1.5. Disposition

Chapter two describes the chosen methods, what sources of information we have used as well as how we have conducted the study. In chapter three we describe the proposed statement, which this study partly is based on. This chapter should be seen as background information for the coming analysis of the comment letters.

Chapter four describes the two theories we intend to use in the end of the study for the purpose of contrasting the findings. The theories are positive accounting theory and worldview theory. The following chapters, five and six, both illustrate our findings in the comment letters. Chapter five describes the findings in separate sections and is more of an introductory chapter to chapter six, in which the findings are described in more detail. In chapter seven we analyse and contrast the separate findings. In chapter eight we present our empirical conclusions and further contrast them with the two theories described earlier. This last chapter ends with a discussion about the reliability and validity of this study.

2. Method

The purpose of this chapter is to explain the chosen methods as well as describe what type of information we have collected. The chapter also illustrates how this study was conducted.

2.1. Research approach

Before an empirical study is commenced, the researchers have to decide how to perform the study. There are generally two approaches, the inductive and the deductive approaches. With the inductive approach a theory is the result of a process that evolves gradually as empirical information is systematically gathered. In that case a study will be performed by first finding empirical information and thereafter deduce a theory from that information. [7]

The more formalized deductive approach is the opposite of the inductive approach. It is defined by a procedure in which the researchers deduce new hypotheses, which mostly are tested by empirical findings, from theories. This means that the researchers first define or choose a theory and test with the help of empirical information, whether the theory is applicable or not.[8]

This study is based on a deductive approach since we begin this study by first describing two accepted theories, which are the positive accounting and the worldview theories, and further continue by studying empirical information to see whether the findings support or do not support these theories.

2.2. Method for data collection

Data can be collected with two different methods and these are the quantitative and qualitative methods. The quantitative method is more formalized and structured than the qualitative method. It can be more controlled by the researchers and it defines the circumstances that are of special interest for the questions stated in the study. The quantitative method determines possible answers to the questions stated and it is also characterized by a distance from the source of information. Statistical methods play a major role in the analysis of quantitative information.[9]

The qualitative method's primary focus is to gain a high degree of understanding for the problem that is being studied. This less formalized method is not concerned with testing the information's validity. Instead it tries to define the general picture that facilitates a better understanding for the context. The method is characterized by its short distance to the source of information and the researchers should try to understand the situation for the person or unit being studied and see the world from his/her/its perspective. Verbal analysis is common within this method and it is the researchers' perceptions and interpretations of information that direct the result of the study.[10]

The choice between a quantitative and qualitative method is not always obvious. But researchers do not have to choose between these methods since they both can be applied in the same study. This can increase the reliability of a study since weak characteristics of one method can be compensated by strong characteristics of the other.[11]

This study has been carried out with an open mind towards both these methods. Initially we wanted to use both methods since we believed this would enable us to provide more reliable results. But in

[7] Holme & Solvang (1997), p. 51, p. 92.
[8] Ibid.
[9] Ibid.
[10] Holme & Solvang (1997), p. 14.
[11] Ibid.

the end this study came to be based on a qualitative method with a small amount of quantitative characteristics because the main interest of this study is to gain an understanding for certain factors, which in this case are the constituents' opinions and interests. The question and purpose of this study have also changed gradually as new information has been gathered and as new approaches have been tried during the study. The process of analysing the 93 comment letters can be quite subjective, and the results therefore might have been subject to our own interpretations and perceptions of the information. We have tried to circumvent this by carrying out verbal analyses and discussions, thus showing that a qualitative method is being used in this study.

The reason why a quantitative method is not applied in full in this study is that it is not possible to perform any statistical tests for the reasons outlined in the validity section. We have however, carried out a slight quantitative analysis in which we compare percentage numbers in the data.

2.2.1. Secondary data

When researchers collect data, a distinction is made between primary and secondary data. Primary data refers to new data that is collected by the researchers while secondary data refers to data that has already been collected.[12]

Secondary data is the only source of data used in this study. The main source of data that serves as a basis for the empirical information is the 93 comment letters and the proposed statement. This data is a convenience sample and it is subject to self-selection bias since this is the only given data that can serve the purpose of this study.

Information has also been gathered from articles, previous studies, internet as well as theories from the accounting literature. No interviews or any participating observations have been carried out. Consequently, this study is limited to the use of documents.

2.2.2. Execution of the study

In the initial phase of this study the relevant theories, articles and the Exposure Draft were examined. This increased our knowledge in the subject as well as helped us distinguish what specifically to look for in the 93 comment letters.

In the beginning, all 93 comment letters were read in full, independently as well as individually, and the previously described delimitation was thereafter determined. All comment letters were read in the same manner once more, but this time with the focus on the delimitation. The comments put forth by the 93 constituents were documented and this documentation revealed a clearer pattern of opinions. From this data, the first step was to form mutually exclusive opinion groups.

The procedure of forming the opinions into groups was carried out by discussions and decisions about which opinion group each and every comment letter should belong to. We agreed immediately on 82 comment letters. The 11 comment letters in respect of which direct agreement was not possible were read and discussed once more until we agreed on how to classify them. In the end however, agreement on which opinion group the comment letters should belong to was always possible without any need of compromising.

Since the groups are defined by opinions, one might argue that comment letters with more than one outspoken opinion should belong to more than one opinion group. This dilemma was circumvented by ranking the comment letters after strength of the opinion and by forming opinion groups with the strongest opinions first. Strong opinions are here referring to opinions that clearly argue for drastic changes of the proposed statement, while the weaker opinions refer to opinions that do not express the same urge for change.

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[12] Holme & Solvang (1997), p. 13.

If comment letter Alpha expresses opinions B and C, (where B and C are two of the outspoken opinions found), and B is the strongest opinion of them both, then this comment letter will belong to the group corresponding to the B opinion and not the C opinion. Thus the procedure of forming opinion groups with one opinion group per comment letter was made possible when the comment letters with the strongest opinions were first formed into opinion groups.

In the next step it became interesting to reveal to what extent the opinion groups formed consisted of the same type of constituents. The study thus proceeded by dividing and classifying the constituents between the three constituent types commonly used within the accounting literature. These are attesters, preparers and users of accounting information. A forth type, not commonly used within the accounting literature, was added and this type takes on the view of accounting information as academics. The classification was also made in accordance with accounting literature and the constituents were therefore classified after the lines of businesses they are active in and independently from the opinion groups found. For example, comment letters (constituents) relating to bank and finance were classified as users of accounting information.

Each of us made this classification individually and independently, and the results were thereafter examined by the two of us together. If the classifications differed, further discussions were necessary until agreement on the classification was made. We independently reached the same conclusions for approximately 85 out of the 93 constituents and the remaining 7 constituents were successfully classified after discussions.

After the classification of the constituents and the analysis of the findings from the two steps described above, one step back was taken and another approach was used in this study. This time, the opinion groups were analyzed in order to find out whether the opinions had something in common. In this procedure, we split the comment letters between us and carefully examined three opinion groups each. The opinion groups were thereafter combined into three sub groups based on concern with fair value accounting.

After this final classification further analysis was carried out and the findings were in the end contrasted with the theories presented in this study.

3. The proposed statement on fair value measurements

This chapter should serve as background information for the study to come and it begins by briefly describing the contents of the Exposure Draft and the general concepts of fair value. It also describes the Fair value hierarchy concept and the procedure of commenting, including the issues stated by the Board. As mentioned previously, the Fair value hierarchy with related issues is the limited area of this study.

3.1. The contents of the Exposure Draft

On June 23, 2004 the FASB issued the Exposure Draft. It consists of the proposed statement including four appendixes, a notice for recipients and a summary.

There are eight different subjects and concepts found in the proposed statement. These are Definition of fair value, Unit of account, Valuation techniques, Market inputs, Valuation premise, Fair value hierarchy, Disclosure and lastly, Effective date and transition.

The proposed statement provides general guidance on how to measure fair value and it is to be applied to financial as well as non-financial assets and liabilities that should be measured at fair value under other authoritative accounting pronouncements. The guidance in the proposed statement should be applied together with applicable valuation standards and generally accepted valuation practices where appropriate. The provisions of the statement do not apply to immaterial items. The reason why the FASB issued this statement is that there is limited guidance for applying fair value measurements in generally accepted accounting principles (GAAP). The Board also considered the need for increased consistency and comparability in fair value measurements.[13]

The general definition of fair value is according to the proposed statement "the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties"[14]. The objective of fair value measurement is to estimate an exchange price for the asset or liability being measured in the absence of an actual transaction and the estimate is to be determined by reference to a current hypothetical transaction between willing parties. Willing parties are defined as marketplace participants representing unrelated buyers and sellers that have a common level of understanding about factors relevant to the transaction. They should be willing and able to transact in the same market and have the legal and financial ability to do so. The amount that forms the basis for the estimate is the price that would be observed in a transaction other than a forced liquidation.[15]

3.1.1. Fair value hierarchy concept, paragraphs 14-24

The proposed statement prescribes in paragraph 14 that the valuation of an asset or liability should be conducted according to a hierarchy consisting of three levels; level 1, level 2 and level 3 estimates. The Fair value hierarchy gives the highest priority to market inputs that reflect quoted prices in active markets for identical assets and liabilities (level 1 estimates) and the lowest priority to entity inputs developed based on an entity's own internal estimates and assumptions (level 3 estimates). The fair value of an asset or liability is defined as the value available from the highest possible level of the Fair value hierarchy.[16] In the coming three sections each level is described.

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[13] Exposure Draft 1201-100, Summary, p. v.
[14] Exposure Draft 1201-100, p. 2.
[15] Ibid.
[16] Exposure Draft 1201-100, p. 5ff.

Level 1 - Quoted prices in active reference markets, paragraphs 15-18

Fair value should be estimated using quoted prices for identical assets or liabilities in active reference markets whenever that information is available. The reference market is the active market in which the entity could exchange the asset or liability in its current condition at the quoted price in that market within a period that is usual and customary for transactions involving such assets or liabilities. If the entity has access to multiple markets the reference market is the most advantageous one. Costs of transactions should be considered when determining the most advantageous market. However, the price in the most advantageous market should not be adjusted for transaction costs. Transaction costs should instead be accounted for in accordance with the provisions of other applicable pronouncements.

When bid and asked prices are more readily available than closing prices, fair value should be estimated using bid prices for long positions (assets) and ask prices for short positions (liabilities). For offsetting positions mid- market prices should be used for the matched portion. Bid and asked prices should be used for the net open position, as appropriate.[17]

Level 2 - Quoted prices adjusted for differences, paragraphs 19-20

If quoted prices for identical assets or liabilities in active markets are not available fair value should be estimated using quoted prices for similar assets and liabilities in active markets, adjusted as appropriate for differences, whenever that information is available. The price effect of the differences must be objectively determinable; otherwise the estimate is a level 3 estimate.[18]

Level 3 estimates - Multiple valuation techniques, paragraphs 21-24

If level 1 or level 2 estimates are not available, fair value should be estimated using multiple valuation techniques consistent with the market approach, income approach and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort.

The market approach requires observable prices and other information generated by actual transactions involving identical similar or otherwise comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present amount and the estimate is based on the value indicated by marketplace expectations about those future amounts. The cost approach considers the amount that currently would be required to replace an asset's service capacity and the estimate considers the cost to acquire a substitute asset of comparable utility, adjusted for obsolescence.

If multiple valuation techniques are used, the results of those techniques should be evaluated considering the relevance and reliability of the inputs used. If information necessary to apply multiple valuation techniques is not available without undue cost and effort, the valuation technique that best approximates what an exchange price would be in the circumstance should be used. Valuation techniques used for level 3 estimates should emphasize market inputs including quoted prices generated by actual market transactions, adjusted as appropriate.[19]

3.1.2. The procedure of commenting - Notice for recipients of the Exposure Draft

The Board has stated 14 issues on the Exposure Draft, which they want recipients (constituents) to specifically address in their comment letters. The comment deadline was on September 7 2004. The recipients were not required to comment on all the issues stated by the Board and they were also encouraged to comment on additional issues.

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[17] Exposure Draft 1201-100, pp. 5-6.
[18] Exposure Draft 1201-100, p. 6.
[19] Exposure Draft 1201-100, pp. 6-7.

The 14 issues concern different subjects of the proposed statement such as the Definition of fair value, Valuation techniques, Active markets, Valuation premise, Fair value hierarchy, Fair value disclosures and whether or not the recipient would like to participate in a public roundtable meeting held by the FASB.

The issues in focus of this study are issue five and issue nine and they are quoted from the Exposure Draft below.

Issue five - Fair value hierarchy

"This proposed statement would establish a hierarchy for selecting the inputs that should be used in valuation techniques used to estimate fair value. Those inputs differ depending on whether assets and liabilities are identical, similar or otherwise comparable. General guidance for making those assessments is provided, is that guidance sufficient? If not, what additional guidance is needed?"[20]

Issue nine - Level 3 estimates and multiple valuation techniques

"This proposed statement would require that in the absence of quoted prices for identical or similar assets or liabilities in active markets, fair value be estimated using multiple valuation techniques consistent with the market approach, income approach, and cost approach whenever the information necessary to apply those techniques is available without undue cost and effort. General guidance for applying multiple valuation techniques is provided, is that guidance sufficient? If not, what additional guidance is needed?"[21]

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[20] Exposure Draft 1201-100, p. i.

[21] Exposure Draft 1201-100, p. iii.

4. Theoretical framework

This chapter describes the two theories we intend to use in the end of the study for the purpose of contrasting the findings. These are positive accounting theory and worldview theory. Previous studies of comment letters as well as these studies' implications for the two theories and this study are also presented below.

4.1. Positive accounting theory

"The objective of accounting theory is to explain and predict accounting practice"[22] Theories may be described as normative or positive. A normative theory explains *what should be done* and it offers prescriptions and suggestions for the contents of accounting reports.[23] A positive theory however, refers to *what is* and it is concerned with how the world works.[24] Positive accounting theory tries to explain real world phenomena without indicating how things should be and it includes, in addition to financial markets, other environments which are influenced by financial statements. More importantly, since financial statements have impacts on different environments, positive accounting theory shows that there are incentives for accounting systems to be used not only to measure the results of decisions but also to influence the decisions in the first place. This interaction therefore can influence both management's operating decisions and accounting choices.[25]

Positive accounting theory is important because it provides those who must make decisions and choices on accounting policy (managers, accountants, investors, financial analysts, regulators) with predictions of, and explanations for, the consequences of their decisions.[26] Positive accounting theory can indicate how and why accounting reports are prepared in particular ways and it has been argued that managers choose accounting principles that will maximize growth and minimize volatility of reported earnings.[27]

Before the mid 1960s the dominant accounting theory was normative theory. Thus, the concept of positive accounting theory was introduced relatively recently and it has arisen because there is no theory today that can fully explain accounting practice. In a perfect world, one would not have to make this distinction, because a complete and well-developed theory should be able to explain both what is and what should be.[28]

4.1.1. The essence of positive accounting research

The positive accounting approach is sometimes referred to as the "economic consequences of accounting" literature. As mentioned previously, the essence of positive accounting theory is that it assumes accounting information not only is a result of a firm's actions, but that it also forms a part of the firm and its organizational structure. The accounting information is the basis on which resources are allocated, debt restrictions are measured and management is compensated. Management is therefore likely to take into consideration the effects on those variables when they choose between alternative accounting methods or when they lobby for changes of accounting standards.[29]

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[22] Watts & Zimmerman (1986), p. 2.
[23] Schroeder et al. (2005), p. 1, Brown (1987), p. 291.
[24] Watts & Zimmerman (1986), p. 8.
[25] White, Sondhi & Fried (2003), p. 164, Gordon (1964), p. 261.
[26] Watts & Zimmerman (1986), p. 14.
[27] Gordon (1964), p. 261.
[28] Watts & Zimmerman (1986), p. 14, Schroeder et al. (2005) p. 1.
[29] White, Sondhi and Fried (2003), p. 173.

This broader approach led to changes in the finance and economics literature and economists examining regulation and its effects began to question the belief that all regulation was motivated by concern with the public good and increased social welfare. Politicians and regulators were instead viewed as being motivated by their own self-interest and hence, have private incentives to spread certain regulations.[30]

There are studies which try to explain the relationship between different incentives, firm size, tax basis, risk of government regulations and management compensation plans. The one thing that all positive accounting research has in common is that it tries to explain the outcome and interpretation of real world accounting with managements' or companies' self-interest.[31] Positive accounting research also tries to explain the agreement issues on accounting standards with differing interests. Since involved parties in the standard-setting procedure are assumed to have different interests in accounting, agreement is difficult. It is thus suggested that different accounting policies will be preferred by different groups consisting of members with similar interests in accounting.[32]

4.2. Worldview theory[33]

A contrast to positive accounting theory is worldview theory and it arises from the fact that people cannot understand the whole reality which is surrounding them. Therefore, individuals unconsciously perceive only some parts of reality. This is called selective perception and the way the selective perception results into a particular perspective is a social process. These particular perspectives are named worldviews.

Worldviews are not distortions of reality. They are instead ways of approaching reality and people will have different worldviews because they have different life experiences. On the other hand, there are not as many worldviews as there are people. A lot of people will therefore share the same worldviews which divides them into different worldview classes.

The fundamental difference between interests, described by positive accounting theory, and worldviews is that interests are based upon individuals and they gain their legitimacy from the view of the individual as a self-seeker and become members of interest groups in which common and clearly defined interests are shared. Worldview theory is, on the other hand, a social perspective and it understands individuals as members of society rather than seeking to understand the social process as the result of individual preferences. It allows partitioning based upon affiliation between members of a group not couched in terms of material gain but rather in terms of affiliation to certain values.

In the case of accounting regulation it is proposed that the debate is seen as a result of two classes of worldviews namely *users of information* and *providers of information*. These are abstract concepts and should not be applied invariantly to groups of individuals. It is suggested that there are for example, no mutually exclusive groups such as "shareholders" and "firms", because in worldview theory groups are based on different worldviews and not on clearly defined interests.

It is stated that a firm will take one worldview when it is taking on the role as a user of accounting information and another when providing accounting information. Users are mainly concerned with the usefulness of accounting information for individual resource decisions while providers are mainly concerned with the survival of the enterprise.

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[30] An example of a positive accounting theory is the agency theory and it also takes as a starting point the argument that people are motivated by their own self-interest.
[31] See for example, Gordon (1964), Watts and Zimmerman (1978), Leftwich (1981), Zmijewski and Hagerman (1981).
[32] Saemann (1999), p. 3ff.
[33] This section relies on Laughlin and Puxty (1983).

4.2.1. The user's worldview

The user's worldview has dominated both accounting theory and practice for a long time and it is concerned with users' needs of accounting information. Shareholders, banks or government departments usually have a user's worldview and it is also held by others on behalf of users. The "others" we are referring to here are in particular the major accounting bodies and regulatory agencies. An examination of this worldview therefore involves examination of the approaches taken by standard setters as well as those responding on behalf of users in the standard-setting procedure.

The user's worldview is mostly based upon the traditional accounting model which is concerned with the measurement of income and wealth. The measurement of income and wealth in traditional accounting is different from that of economics. Accountants have developed their own measurement rules based on convention. These conventions, such as the principles of prudence and consistency, have determined what is viewed as good accounting.

4.2.2. The provider's worldview

This worldview is basically an organizational one. The ones who represent this worldview are concerned with the survival and growth of their enterprise. When something is perceived to threaten the survival or growth it is dealt with, aggressively. They are not concerned with technical necessities of a standard but rather whether the standard nourishes, makes contribution to, or detracts from organizational growth or survival.

4.2.3. Implications

The most important difference between worldview theory and traditional accounting theory, such as positive accounting theory, is that traditional theory defines an interest group as a group of individuals that share the same attributes. In worldview theory nothing is taken for granted since individuals are instead grouped according to how they perceive reality. How they perceive reality depends on their life experiences which result in their worldviews. Their worldviews are also dependent on the specific situations and it is possible for the same individual to adopt the user's worldview or the provider's worldview depending on the circumstances. The narrow procedure in which individuals are grouped according to their attributes is thus abandoned. The grouping has to be adjusted to the specific situations.

This rather abstract theory can seem difficult to apply on the standard-setting procedure. How different individuals lobby on different accounting standards is probably affected by the worldviews individuals adopt in a specific situation. A person that owns shares in a company which he/she is the manager of is likely to adopt the user's worldview if he/she responds as a shareholder and the provider's worldview if he/she responds as a manager. One cannot know for sure what worldview an individual will adopt in a specific situation.

4.3. Previous research

There is little published on the content and nature of comment letters filed.[34] However, there are studies within this area and this section attempts to describe two generally accepted studies. These are the Watts & Zimmerman and Saemann studies.

[34] Saemann (1999), p. 2.

4.3.1. Watts & Zimmerman - Effects on determination of accounting standards

A positive theory for the determination of accounting standards was developed by Watts and Zimmerman.[35] The theory assumes that managers act to maximize their own utilities which are a positive function of their future wealth and a negative function of the dispersion of their future wealth. The authors describe that the choice of accounting standards can affect management wealth via five criteria; taxes, regulatory procedures, political costs, information production costs and management compensation.

Expected management wealth increases when taxes decrease, utility rates increase, political costs decrease, information procedure costs decrease and when incentive compensation payments increase. It is argued that managers of large, politically sensitive, regulated firms have incentives to lobby for accounting standards that decrease reported earnings because lower earnings reduce taxes as well as reduces political pressure on large firms. Abnormally high levels of earnings can make government impose regulations that reduce earnings.

Small non-politically sensitive and non-regulated firms have incentives to lobby for accounting standards that increase reported earnings, under the criteria that the expected increase in managers' wealth more than offsets the increase in firms expected taxes and information production costs. There was also stated that small firms will not engage in lobbying if the cost of lobbying exceeds the expected value of the net benefits. The findings in this study indicate that positive accounting theory is applicable.[36]

4.3.2. Saemann - An examination of comment letters

Saemann's article, *An examination of comment letters filed in the U.S Financial Accounting Standard-Setting Process by institutional interest groups,* attempts to study the content of comments filed on 20 FASB accounting standards by four institutions in the United States. Those comments are assumed to represent the views of the three interest groups financial statement users, attesters and preparers. The four institutions are FEI, IMA, AIMR and AICPA and they are taken as surrogates for the interest groups in the financial standard setting process. [37] The Saemann-study attempts to describe how these four institutions align with the three interest groups described through their comments on the standards.

Her results indicate that AIMR, which in this study represents users, is most constant in its position while the two preparer institutions (FEI and IMA) took user oriented positions on some issues. Comments from the AICPA varied, but the study showed an overall bias towards user views. This examination thus provides evidence that there are disparate and aligned interests on specific characteristics of accounting among users, attesters and preparers.[38]

An interesting aspect of Saemann's findings is that they indicate some amount of diversity in the views within the interest groups. The respondents were in other words, not generally consistent in their responses to the proposals. This gives rise to uncertainty regarding the existence of interest groups. Other studies made by different authors have also indicated this issue and they all seem to point to the same direction; the diversity in opinions shows that there are no interest groups.[39]

[35] Watts and Zimmerman (1978), p. 112ff.
[36] Watts and Zimmerman (1978), p. 124ff.
[37] Saemann (1999), p. 1.
[38] Ibid.
[39] Hjelström (2005), pp. 51-52.

4.3.3. Implications

As Watts & Zimmerman's study show, there are interest groups in the standard-setting procedure which try to influence the formation of standards in order to correlate them with their own self-interests. Their study reveal that different interest groups lobby for certain accounting standards, which indicates that positive accounting theory is correct in this context. Saemann's study, on the other hand, shows that there are aligned interests in the standard-setting procedure but that these interests are quite dispersed among the respondents within each group.

Watts & Zimmerman and Saemann use somewhat different approaches in their studies. Saemann uses the classic distinction between, attesters, preparers, and users while Watts & Zimmerman examine differences between small and large firms. Even though they use different approaches, their studies are quite similar in that they begin by first defining different interest groups and thereafter continue by examining the comments made, and actions taken by the constituents in these groups.

Our study is somewhat different. It first examines whether any major opinions can be found and further tries to reveal whether these opinions can be described by similar interests. Since clear patterns of interest groups have been found in the Watts & Zimmerman study, it might be possible that similar patterns can be found in the opinion groups our study is about to define. This study thus tries to explain whether potential opinion groups can be described by a common attribute, which in this study will be defined according to the same constituent types Saemann used in her study, namely attesters, preparers and users of accounting information.

Saemann's study indicates that it might not be possible to define any interest groups. Therefore it will be as much interesting finding no patterns as finding patterns in interests in our study.

5. Empirical findings

We begin this chapter, which is an introduction to chapter six, by briefly explaining the design of the 93 comment letters. We also present the opinion groups formed as well as how the comment letters are distributed among these opinion groups. The chapter ends by explaining how the constituents were classified as attesters, preparers, users or academics, independently from the opinion groups found.

5.1. The comment letters

In total there are 93 comment letters to the Exposure Draft and all but four were written by American constituents.

Most comment letters applaud the FASB's objective for providing uniform guidance on the measurement of fair value and there are only five comment letters opposing the fair value concept since they are negative to fair value accounting. Even though most comment letters are positive towards a general guidance of fair value measurements, they give many different comments on the different subjects and paragraphs in the proposed statement.

As mentioned earlier, constituents were welcomed to comment on the whole proposed statement and the 14 issues stated by the Board. The comment letters mostly begin with general comments and, by the constituents, certain highlighted problem areas. The comment letters further continue with comments on some or all issues stated by the Board. Even though these issues are focusing on certain parts of the proposed statement, the constituents often describe other concerns related to the same area under their responses to the stated issues. This is also the case with the comments on the Fair value hierarchy concept and its related issues. Constituents highlight under issues five and nine other issues which they have observed and that are not stated specifically by the Board.

5.2. Distribution of the comment letters between opinion groups

From the study and documentation of the comment letters six major opinions relating to the Fair value hierarchy concept were found. These six opinions were formed into six mutually exclusive groups. What is characterizing them is that the opinions are very direct and outspoken. The opinions also differ in their degrees of strength in expression. A strong opinion is here referring to opinions that clearly argue for drastic changes of the proposed statement, presented in the comment letters which are quite negative, while weaker opinions refer to opinions that do not express the same urge for change and therefore seem to be more positive towards the proposed statement.

The six opinion groups were given the following names; *the Traditionalists, the Freedom fighters, the Multiple valuation techniques opponents (the MVT opponents), the Modifiers, the Accepters* and lastly*, the Nonsayers.*

The Traditionalists with its five letters was the first group formed continuing with the Freedom fighters, and so on. This gave six mutually exclusive groups, in line with what is described under the method section above.

The 93 comment letters are distributed among these six groups in the way table 5.1 depicts. From this table the opinion groups are disclosed vertically on the left side. On the vertical right side, the total number of comment letters in each opinion group and how they relate to the 93 comment letters is shown. The largest group found is the Modifiers in which there are 31 comment letters, which gives a relative size of approximately 33% of the 93 comment letters. Each opinion group is described in more detail in the next chapter.

5.3. *Four types of constituents*

According to accounting literature, constituents are commonly classified as attesters, preparers or users of accounting information. We have used these generally accepted types of constituents to classify the 93 constitutes. We have also added a fourth type of constituent, namely the academic, whose constituent type is not examined within the accounting literature. In this study, the four constituent types are distributed to the 93 constituents after the lines of businesses the constituents are active in and independently from the opinions found. This is also in line with accounting literature.

Users are those constituents who mainly are using and analysing accounting information rather than preparing it. They use accounting information as a means for making investment decisions, conducting company valuations and similar. This type includes for example banks and financial institutions because these lines of businesses usually have great interests in using other entities' accounting information. Some financial institutions may for example use accounting information for deciding upon a company's credit rating or risk level.

The decision to classify banks and financial institutions as users required careful consideration since many of the comment letters are issued by the accounting departments at the respective institutions. One could argue that comment letters issued by the preparing or accounting departments of banks or similar could have been classified as preparers. We decided however, to classify the constituents independently from the comment letters and opinions. If we had classified the constituents with support from the opinions, the study would have been less meaningful since one of the things that we would like to examine is whether the traditional classification of banks and financial institutions as users, can explain the opinion groups.

Preparers are those who prepare their own accounting information and financial statements such as annual and interim reports. Preparers in our study are mainly companies from different industries except banks and financial institutions. This type therefore is a kind of residual post, because when there are no constituents left for classification into the three other constituent types, the rest can be classified as preparers. This is also possible because all companies prepare some kind of accounting information.

All firms that are classified as users prepare accounting information, as well as most preparers use accounting information in some way. No constituent is a pure user or a pure preparer. It therefore becomes evident that even if a constituent is classified as a preparer, this constituent might be a user to some extent.

Attesters are constituents within small and big auditing firms. As the name clearly states, attesters are the ones that attest annual reports and assure that financial statements and other accounting information is correct and in accordance with generally accepted accounting principles.

The constituents representing universities or similar education institutions were classified as academics. Most often these constituents were professors of accounting and they could not be classified as attesters, preparers or users and therefore they were classified as academics.

The distribution of constituent types among the 93 constituents is found in table 5.1 below. On the horizontal axis the four types of constituents are disclosed. The distributions of the 93 constituents between the constituent types are depicted in the second last row. Their relative size to the comment letters can be seen from the last row. The largest constituent type is the one consisting of preparers with approximately 46% of the total number of comment letters

A full list of the 93 constituents and the distribution of these between constituent types and opinion groups is disclosed in Appendix II.

Table 5.1: Opinion groups and four types of constituents

Opinion groups	Attester	Preparer	User	Academic	Total	
					Number	% of total
Traditionalists	2	2	1	0	**5**	**5.4%**
Freedom fighters	1	8	5	2	**16**	**17.2%**
MVT opponents	5	10	10	1	**26**	**28.0%**
Modifiers	9	13	7	2	**31**	**33.3%**
Accepters	2	1	1	0	**4**	**4.3%**
Nonsayers	1	9	1	0	**11**	**11.8%**
Total constituents by type	**20**	**43**	**25**	**5**	**93**	**100.0%**
% of total	**21.5%**	**46.2%**	**26.9%**	**5.4%**	**100.0%**	**0.0%**

The table above also shows how the constituent types and opinion groups correlate with each other. There are for example ten preparers found in the group of MVT opponents.

It should be emphasized once more that these two categories, - opinion groups and constituent types - were classified independently from each other, and it therefore became evident to present these findings in separate sections in this chapter. It is not until in the first section of the analysis that potential patterns between the opinion groups found and the types of constituents will be examined. In the next chapter however, the study is continued by explaining the six opinion groups in more detail.

6. Opinion groups

We will in this chapter describe the empirical findings in more detail. The chapter will specifically explain the six opinion groups found and it begins by explaining once more how and in what order these groups came about. This chapter is continued by illustrating each opinion group and their arguments in separate sections.

6.1. Formation of opinion groups

The first group formed, the Traditionalists, is made up by those comment letters that strongly oppose both the proposed statement and the whole fair value concept. They constitute an own group since they have quite a traditional view on accounting and argues in favour of historical cost accounting. This group has very little in common with the other groups since they actually are addressing a totally different subject than the others who mainly focus on how fair value reporting should be conducted.

When the comment letters arguing for historical cost accounting were excluded, it was revealed that many comment letters accept the concept of fair value in accounting but are highly negative to the exact and formalized procedures of making fair value assessments stated in the proposed statement. This group is called the Freedom fighters since the one thing that unites them is their strong will to have greater freedom in assessing what fair value really is and how it should be applied. They would like to abandon the rules and regulations in the proposed statement and thus be able to make their own assessments.

The two groups outlined above are the ones with the strongest and most negative outspoken opinions. And as mentioned in the previous chapter, strong opinions are those opinions that argue for drastic changes of the proposed statement and the comments in these comment letters are quite negative, while the weaker opinions refer to opinions that do not express the same urge for change and are more positive towards the proposed statement.

Among the comment letters remaining, many have in common that they are negative to the requirement to use multiple valuation techniques in making level 3 estimates of fair value. These are the MVT opponents and the most significant opinion that is stated by this group is the proposal that the FASB should remove the requirement to use multiple valuation techniques in making level 3 estimates of fair value. It should be mentioned in this context, that the first two groups above are also negative to the requirement to use multiple valuation techniques. But they are negative not only to this requirement. They are also opposing many other different parts of the proposed statement and argue that FASB should address the fair value concept differently or not at all. The MVT opponents largely accept the proposed statement except for the concept of multiple valuation techniques. Therefore the most significant opinion in these comment letters was their argumentation against the requirement to use multiple valuation techniques.

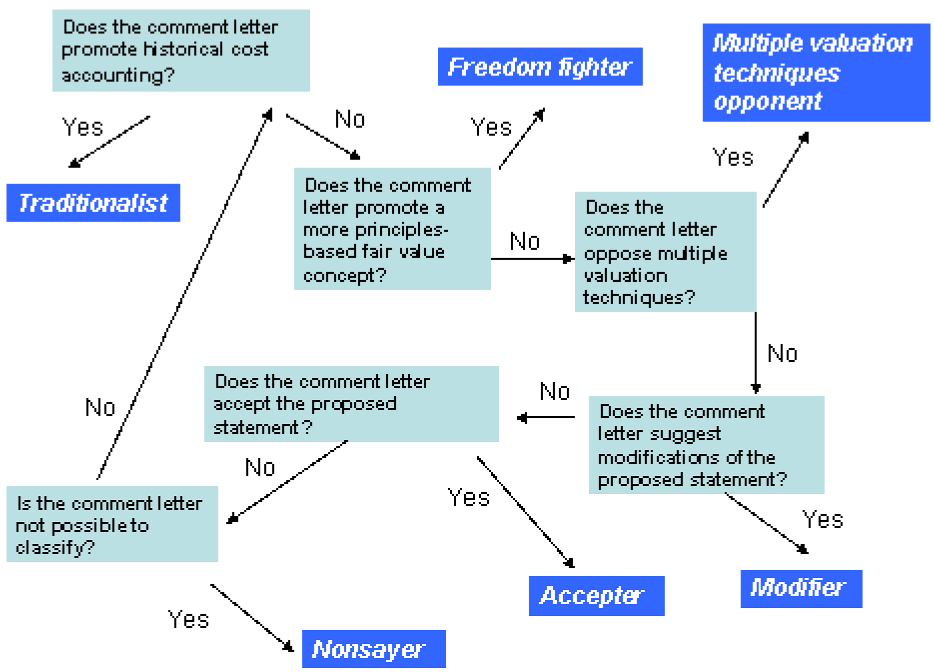
When the first three groups had been formed all the comment letters that express an outspoken negative opinion about the proposed statement were taken care of. Anyhow, the remaining comment letters generally accept the proposed statement as it is but in different degrees. Most of these comment letters express some kind of concern about one or several points in the proposed statement. The comment letters in this group do not have any major concerns in order to be placed in one of the groups above, but they still have important comments and often express a need for additional clarification. This group is called the Modifiers.

The second last group formed is the group that is most positive towards the proposed statement. This group largely accepts the provisions of the proposed statement and it is therefore named the Accepters.

Lastly, there are also some comment letters which did not reveal any specific opinions. Among these comment letters are some that do not comment on issues five or nine or the Fair value hierarchy, and there are also two comment letters from which we could not draw any conclusions because of very vague arguments or similar. This last group is called the Nonsayers.

Figure 6.1 below shows how the formation of the opinion groups was made.

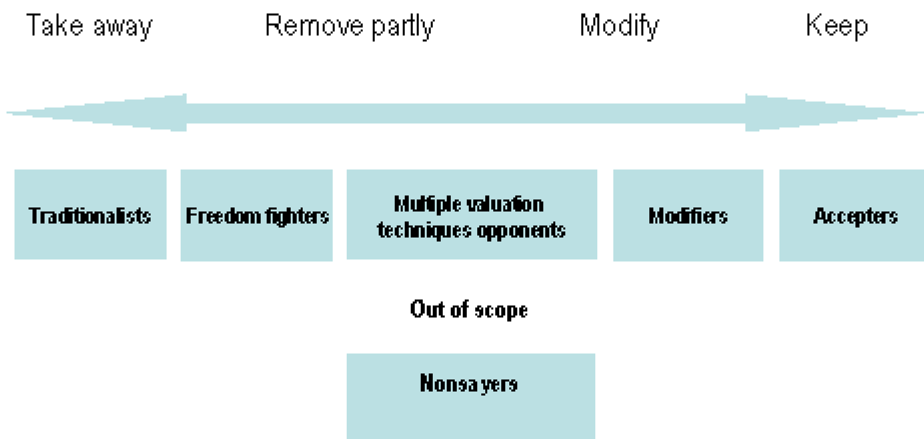
Figure 6.1: Formation of opinion groups



6.2. *The six opinion groups*

For illustrative purposes, figure 6.2 below is depicting the six opinion groups and their different degrees of strength in opinions. The arrow shows the direction the opinion groups would like the concept of fair value measurements of assets and liabilities to take. On the left side there are those who are expressing strong, negative opinions about the proposed statement. Following the arrow to the right, the opinions get less strong and less negative and finally end up on the far right where we find the Accepters. The Nonsayers are of little importance in this context since they are out of scope.

Figure 6.2: Opinion groups and their degrees of strength in opinions



6.2.1. Traditionalists

The comment letters in this opinion group are negative to the entire fair value reporting concept. They are negative to any type of fair value accounting and not only to the measurement conditions expressed in the proposed statement. The following quotes are from comment letters placed in this group.

"Before discussing the specifies of this proposal I would like to make perfectly clear that we de not like fair value accounting."[40]

"For a rate-regulated enterprise that is limited to rate recovery based on historical asset cost, the most appropriate carrying amount for a regulated asset is, therefore, its historical cost."[41]

The comment letters in this group are usually quite short and they only argue for the abandonment of fair value accounting and propose a return to historical cost accounting. The arguments and reasons for their opinions are mostly that they see great difficulties in assessing what fair value really is and that they are concerned with the subjectivity involved with some fair value estimates. They claim that the fair value concept is inexact and creates problems only. There is the argument that the use of fair value in accounting lowers the value of information in financial statements. It is also argued that fair value accounting might create management fraud and that the benefits do not exceed the related costs. The quotes below illustrate the arguments often used in the comment letters in this group.

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[40] Comment letter 10, Financial Institutions Accounting Committee, p. 1.
[41] Comment letter 22, National Rural Electric Cooperative Association, p. 2.

"Fair value accounting may be a great theory, but the potential cost vastly exceeds any benefit. Anyone who lives in the real world knows that it is by its nature inexact, subject to manipulation (no matter what guidance you issue), and only adds more uncertainty to financial statements."[42]

"Cost gives the auditor a solid base upon which he/she can form an opinion"[43]

The Traditionalists seem to be concerned with the basic question what accounting really is about. The positions of the constituents are clearly that reliability and prudence in fair value accounting are more important than accuracy in the specific rules. They are not too concerned with the practical implications of the application of the proposed statement. Their main concern is instead the basic purpose of accounting and they clearly prefer the traditional historical cost approach.

6.2.2. Freedom fighters

This opinion group is largely positive to the concept of fair value accounting but negative to the provisions of the proposed statement. The comment letters in this group can shortly be summarized as proposing a less rules-based approach to the fair value concept. Freedom fighters are generally negative to the proposed Fair value hierarchy and the requirement to use multiple valuation techniques when making level 3 estimates. The quotes below illustrate the opinions of the comment letters in this group.

"A decision hierarchy adds a layer of procedural formality which compounds the difficulties and doesn't address the basic question as to what fair value should be."[44]

"We believe that the most appropriate method is to combine all available information sources and to weigh up the validity of each source. We recommend that the FASB drop the concept of the hierarchy and allow entities to use a single, appropriate valuation technique that incorporates all the available evidence."[45]

Freedom fighters often argue that a more principles-based fair value concept will enable entities to achieve better estimates of fair value. They consider freedom to be a prerequisite for obtaining the most suitable valuation techniques and a guarantee for correct calculations of fair value. They also argue that a rules-based approach will make it impossible for entities to take all available information into account. Some of the Freedom fighters state that the one main thing FASB should do is to address the basic question what fair value is and thereafter leave the exact interpretation of the principles to the entities performing the valuations.

"Essentially an estimate of fair value should rely on the best information available. We believe that a strict hierarchy for measuring fair value is not required."[46]

"We believe that companies should be allowed to select a methodology in any level of the Fair Value Hierarchy, as long as that method produces a reasonably reliable estimate."[47]

There are of course various valuation approaches suggested in the comment letters of this group. The one thing they all have in common is that they are negative to the rules-based approach in the proposed statement, which specifies how to prioritize between the different kinds of inputs used in valuations. They also seem to believe that the best fair value assessment is made by the valuing entity which recognizes the valued asset or liability on its own balance sheet. Some of the Freedom fighters describe their own internal valuation techniques and suggest they should be allowed to proceed with their own internal models used in valuation.

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[42] Comment letter 1, John A. Braden, CPA, p. 1.
[43] Comment letter 9, Eugene H. Flegm, p. 4.
[44] Comment letter 30, Humphrey Nash, p. 8.
[45] Comment letter 31, Totem Market Valuations Limited, p. 2.
[46] Comment letter 45, Morgan Stanley, p. 2.
[47] Comment letter 49, Freddie Mac, p. 2.

"We believe the fair value hierarchy is too prescriptive and will create implementation confusion and thus diversity in practice. Consequently we recommend that the fair value measurement framework be made more principles based." [48]

"*Guidance that would be excessively prescriptive might fail to deliver accounting entries which match the numbers that are based on sound risk management practices which are used internally within entities to measure an instruments performance.* "[49]

The constituents in this group do not address any specific questions or technicalities in the proposed statement. They appear to be more concerned with the overall purpose of accounting and accuracy seems to be more important than prudence in fair value accounting.

6.2.3. Multiple valuation techniques opponents

The comment letters in this opinion group are opposing, and are negative to the concept of multiple valuation techniques which is required when performing level 3 estimates.

Some constituents in this group are referring to the use of already existing and accepted valuation methods and believe that the judgment made by valuation specialists and preparers is enough to determine which method to use. The MVT opponents proclaim that if a particular method for valuation provides convincing evidence of fair value then calculations using other methods should not be required.

"We do not believe that the use of multiple valuation techniques would result in a more reliable fair value estimate than that obtained from an observable market price"[50]

"We believe that valuation specialists and preparers should be able to exercise their professional judgment in determining whether to apply a particular method. The valuation specialist and preparers may determine that it is not appropriate to calculate a value under one of the three approaches in certain situations"[51]

"In situations where there is a preferred valuation technique for a particular asset or liability, we do not believe that the benefit of applying multiple valuation techniques outweighs the cost to do so"[52]

As illustrated by the quotes above the MVT opponents are quite negative to the use of multiple valuation techniques. Even though they express this differently, implicitly as well as explicitly, they all share the opinion that this requirement should not exist in a final standard.

The most common argument against the use of multiple valuation techniques is that it will be too costly. This argument is especially common among the constituents which claim they have large amounts of assets that would require the use of multiple valuation techniques in accordance with the proposed statement.

"We disagree with the Board's conclusion that valuations will not result in undue cost and effort"[53]

Many MVT opponents simply argue that the use of multiple valuation techniques is not necessary for obtaining reliable financial information because it already exist generally accepted valuation principles. It can for example be stated that the valuation of a certain type of asset has been conducted by professional analysts with accepted valuation models for some time and they should therefore be allowed to continue doing so.

"The business valuation industry has a long history of applying multiple valuation techniques in situations where there are no quoted prices"[54]

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[48] Comment letter 45, Morgan Stanley, p. 2.
[49] Comment letter 92, European Banking Industry, p. 1.
[50] Comment letter 7, KPMG, p. 3.
[51] Ibid.
[52] Comment letter 23, MBNA Corporation, p. 4.
[53] Comment letter 43, Group of North American Insurance Enterprises, p. 5.

Some constituents also argue that the use of multiple valuation techniques can result in inconsistencies and management fraud. The reasons for these occurrences are because management will probably choose calculated values that best fit the purposes of the firm when they are able to choose between valuation techniques.

"Requiring, multiple valuation techniques also gives mechanism for companies to manipulate their financial statements by supporting or justifying a value that is favourable for the company based on the subjectivity and variability of the results caused by different valuation approaches as opposed to just selecting the most appropriate technique."[55]

The constituents in this group mostly seem to be concerned with the practical applications of the proposed statement. They do not want the requirement to use multiple valuation techniques to be stated in a final standard because it would imply significant cost increases compared to current practice. Their comments are not addressing questions such as the general purpose of accounting. They simply argue against a specific rule that, if taken away, would benefit them.

6.2.4. Modifiers

This opinion group consists of those comment letters that largely accept the provisions of the proposed statement but has comments or suggestions for minor modifications and clarifications. Modifiers express no desire to remove either the Fair value hierarchy concept or the requirement to apply multiple valuation techniques in making level 3 estimates.

The comments and suggestions given by modifiers are varying. The one thing they have in common is that they seem quite satisfied with the overall concepts and rules expressed in the proposed statement. They express concerns on either the Fair value hierarchy concept or the use of multiple valuation techniques, or on both.

The comments concerning the Fair value hierarchy concept mainly express desires for additional clarification of the three levels in the Fair value hierarchy and how to asses which level a certain asset or liability falls within. Also comments concerning bid or asked prices are put forth by modifiers. Some modifiers also comment on the implications of transaction costs and whether they should be considered in the valuations or not. There are also comments on the definition of active markets to which the entity has immediate access and specifically there are concerns with how to asses whether a specific market is such a market that is described in the proposed statement.

"The Exposure Draft does not give any examples of Level 2 and Level 3 estimates. Deloitte would like to eliminate Level 2 and split Level 3 into two categories. Thus, reorganization of the Hierarchy is recommended."[56]

"We believe that Level 2 in the Fair Value Hierarchy is a null set, as the Board has defined it. We are not aware of any asset or liability for which the price effect of differences is "objectively determinable." It is not clear how the L3 market approach is different from L2. Clearer distinction is asked for."[57]

The comments on the requirement to use multiple valuation techniques are mainly concerned with how to perform the different valuations. Those comments for example concern the procedure for determining the appropriate discount rate or how different risks should affect the valuation. The comments also discuss whether the multiple valuation techniques are required at each reporting date or only at initial recognition. Some modifiers argue, which also is in line with what some of the MVT opponents state that the use of multiple valuation techniques could result in greater subjectivity, earnings management or income smoothing because management can decide which calculated value to choose.

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[54] Comment letter 42, Financial Consulting Group, L.C., p. 2.
[55] Comment letter 41, MetLife Incorporated, p. 2.
[56] Comment letter 71, Deloitte, p. 2.
[57] Comment letter 53, BDO Seidman, p. 4.

"The guidance does not adequately address the fair value measurement of the core deposits of financial institutions. There is still a great room for subjectivity as there are several techniques to choose from. More concrete guidance in this area would assist in creating more consistent measurement practices."[58]

Another reoccurring argument regarding the use of multiple valuation techniques is the cost and effort argument. The Modifiers simply state that it would be too cumbersome and costly to perform the valuations according to that requirement.

"We have concerns in the variety and assumptions that can and will be made for level 3 estimates of fair value in the absence of quoted markets. Large companies may have invested and incurred the cost to determine these values in performing their due diligence in the decision making process. Smaller companies may not be able to reasonably apply these techniques at a reasonable cost. These companies may decide the acquisition or development of this intangible asset is not worth the additional cost involved."[59]

The conclusions we make from the opinions put forth by modifiers is that they all share a desire for clearer rules. They ask for clarification of different degrees and they are concerned that if further clarification or guidance in the form of examples is not added to a final standard, inconsistencies and problems to use it may occur. It is argued that the final standard would not be easy to understand or applicable in practice. Some of the Modifiers express that the proposed statement is not in line with their current accounting procedures or would not help them or their interested parties in improving their valuations.

There are not any opinions in this group that suggest a more principles-based approach. They instead express fixed rules and specified procedures for making valuations or determining the appropriate valuation methods.

6.2.5. Accepters

As the name indicates, these constituents express an acceptance towards both the Fair value hierarchy concept and the requirement to use multiple valuation techniques. The comments are quite short and accepters explicitly indicate that the concepts and requirements are accepted as they are and do not need any changes.

"The guidance provided for establishing the inputs needed for valuation techniques is adequately defined." [60]

Some accepters simply state that the guidance for using the Fair value hierarchy concept or multiple valuation techniques is sufficient. A reoccurring and very short quote in these comment letters therefore is; "The guidance is sufficient"

There are no arguments for the acceptance stated in these comment letters, probably because accepters do not consider it necessary to argue for status quo.

6.2.6. Nonsayers

This last group contains those comment letters that do not comment or argue anything on the Fair value hierarchy concept and requirement to use multiple valuation techniques. This group is therefore outside the delimitations of this study. However, one could assume that nonsayers accept the Fair value hierarchy concept since they do not comment upon it, but we decided to divide these constituents into this last group so no confusion would occur between the Nonsayers and the Accepters, which explicitly proclaims that "guidance is sufficient". The group of nonsayers also contains those comment letters from which we could not draw any conclusions because of very

[58] Comment letter 74, Credit Union National Association, p. 3.
[59] Comment letter 36, Washington Society of Certified Public Accountants, p. 3.
[60] Comment letter 13, Accounting and Auditing Standards Committe, Society of Louisiana Certified Public Accountants, p. 3.

vague argumentations or similar. Since nonsayers do not express anything about the concepts this study intends to investigate, they are out of scope.

7. Analysis

This chapter describes whether similar types of constituents can be distinguished in the six opinion groups previously described. More specifically, this chapter is concerned with finding out whether the four different constituent types can explain the six opinion groups.

7.1. Do the types of constituents explain the opinion groups?

In chapter five the opinion groups found and the classification of four types of constituents were described in two separate sections. This is because these two categories were classified independently from each other.

This study began by distributing the comment letters into six opinion groups. This section will try to find out whether these opinion groups consist of the same types of constituents namely, attesters, preparers, academics or users of accounting information. As mentioned previously this is the way in which traditional accounting research commonly distinguishes between constituent types, except for a fourth added type consisting of academics.

Table 7.1 below will serve as a basis for this analysis. The opinion groups are set out in the left vertical column and the constituent types are set out in the upper horizontal row. The percentage numbers express the share of comment letters in a constituent type that sort under a specific opinion group. We can for example see that 10% of the total number of attesters (two comment letters out of 20 attesters) has expressed traditionalists' opinions. The higher the percentage numbers are the better one constituent type explains an opinion group.

For these coming sections, the focus will be on comparing the above described percentage numbers with the opinion groups' share of the total number of comment letters (% of total in the right column). Great differences between these two indicate a high degree of explanation as well. If for example 100% of the Freedom fighters had been preparers it would strongly support that the opinions can be explained by constituent types.

The tendencies of the correlation between opinion groups and constituent types will be analyzed in the coming sections.

Table 7.1: Constituent breakdown into opinion groups

Constituent breakdown into opinion groups	Attester		Preparer		User		Academic		Total	
	Number	% of categ.	Number	% of categ.	Number	% of categ.	Number	% of categ.	Number	% of total
Traditionalists	2	10.0%	2	4.7%	1	4.0%	0	0.0%	5	5.4%
Freedom fighters	1	5.0%	8	18.6%	5	20.0%	2	40.0%	16	17.2%
MVT opponents	5	25.0%	10	23.3%	10	40.0%	1	20.0%	26	28.0%
Modifiers	9	45.0%	13	30.2%	7	28.0%	2	40.0%	31	33.3%
Accepters	2	10.0%	1	2.3%	1	4.0%	0	0.0%	4	4.3%
Nonsayers	1	5.0%	9	20.9%	1	4.0%	0	0.0%	11	11.8%
Total constituents	**20**	**100.0%**	**43**	**100.0%**	**25**	**100.0%**	**5**	**100.0%**	**93**	**100.0%**

7.1.1. Attesters

It is revealed that attesters show a great diversity in their opinions and it is also observed that some tendencies exist which indicate that certain opinions are common among many attesters. Consequently, almost all six opinion groups' shares among attesters reveal differences when compared to the opinion groups' shares of the total number of comment letters.

The largest opinion group among attesters is the Modifiers with 45%. This is a large share of the total number of attesters and it is also quite a difference compared to the share of the Modifiers in the total number of comment letters, which is approximately 33%.

The second largest opinion group among attesters is the MVT opponents (25%). This share however, is almost as big as the share of MVT opponents of the total number of comment letters (28%) and this shows that there is not a very large difference between these numbers. Freedom fighters are underrepresented among attesters. Only 5% of the total number of attesters expresses a freedom fighter view and this is far below this opinion groups' share of the total number of comment letters which is approximately 17%.

In conclusion, attesters do distinguish themselves from the opinion groups' shares of the total number of comment letters to some extent. They have a great diversity in their opinions and we can specifically observe that attesters seem to be a bit averse to the principles-based freedom fighter approach (small Freedom fighter share) and that they instead prefer more of a modification and clarification of the proposed statement (large Modifier share).

7.1.2. Preparers

Among the total number of preparers we can also observe a great variety in the opinions indicating that preparers have different opinions about the proposed standard. The share of the opinion groups among preparers are largely in line with the opinion groups' share of the total number of comment letters. For instance, the largest opinion group among preparers is the Modifiers with approximately 30%, which can be compared to the approximate figure of 33%.

For the other opinion groups as well, it is observed that the relative size of the opinion groups among preparers are almost in line with the relative size of the opinion groups in the total number of comment letters. One difference is that the group of nonsayers is almost twice as big among preparers (20.9%) than among the total number of comment letters (11.8%). This result occurs because preparers tend to comment on industry specific issues that are not within the delimitations of this study. These comments on industry specific issues are due to the fact that many of the constituents classified as preparers are some kind of industry companies or similar. Some preparers could for example write that a certain paragraph do not coincide with their internal practices and therefore should be reconsidered. A specific comment of this kind on an issue that was not included in our study places the constituent in the group of nonsayers, resulting in a large number of nonsayers among preparers.

In conclusion, the opinions among preparers are largely in line with the opinion groups' shares of the total comment letters, except for the fact that preparers tend to comment on industry specific issues which results in a larger share of the Nonsayers among preparers than among the total number of comment letters.

7.1.3. Users

Users also have diverse opinions among the opinion groups except for the MVT opponents. 40% of the total number of users sort under the MVT opponents and this reveals a rather strong trend when comparing this figure with the MVT opponents' share of the comment letters (28%). Users seem to be negative to the requirement of using multiple valuation techniques in a higher degree than the other constituent types.

A possible explanation for this could be that users are represented by many banks in this study which trade with different financial instruments that are not traded in active markets in which observable prices can be obtained. In those situations the proposed statement requires the use of multiple valuation techniques to estimate the values (level 3 estimates) and that procedure can be very costly. On this issue the banks seem to be more concerned with how to prepare their own statements rather than how to use others' accounting information. Even though the banks seem to be answering as preparers they are classified as users because we examine whether the opinions can be explained by constituent types classified according to accounting literature. We would like to remind the reader that constituent classification was made according to line of business and independent of the opinions found.

The reluctance to use multiple valuation techniques can also explain why users seem to prefer the freedom fighters' opinions to a somewhat larger extent than the two previous constituent types. Users want to obtain more discretion when interpreting principles and thus choose the preferred valuation methods.

Among the total number of users there is only 4% that place in the group of nonsayers. This is far below the Nonsayers' share of the total comment letters of approximately 12%. One possible explanation for this could be that users are quite well-oriented in accounting and take the opportunity to comment on all issues (including the Fair value hierarchy) to a larger extent than, for example preparers. This might be the case because users can be assumed to be concerned with accounting regulations to a higher degree than preparers since users are interested in other entities' accounting practice and not only concerned with how to prepare their own.

The most significant conclusion is that users are quite averse to the use of multiple valuation techniques.

7.1.4. Academics

There are only five constituents classified as academics. This should be kept in mind when analyzing these findings because if one of these constituents would hold a different opinion the whole context would change significantly.

Among academics we can see a pattern different to those of the other types of constituents. The five academics are divided among the Freedom fighters, the MVT opponents and the Modifiers. The most significant difference to the other constituents is that as many as two out of five, (40%) sort under the group of freedom fighters which is larger than this opinion group's share of the total comment letters (17.2%). Two of the five academics (40%) sort under the Modifiers. One out of five (20%) belong to the MVT opponents. This indicates that academics prefer freedom fighters' principles-based approaches to a larger extent than the other constituents and academics are not very fond of the requirement to use multiple valuation techniques. Greater conclusions should not be drawn from this since we only have five constituents that are classified as academics.

7.1.5. Conclusion

Table 7.1 above summarizes whether the opinion groups can be explained by the four constituent types attesters, preparers, academics and users. As outlined above, some trends and tendencies can be seen showing that some opinions are more common among some types of constituents.

The main conclusions are that attesters seem to be a little bit averse to the principles-based group of freedom fighters and that they seem to prefer a modification and clarification of the proposed statement. Preparers comment on industry specific issues to a large extent, which results in them ending up as nonsayers. Users are quite averse to the requirement to use multiple valuation techniques and lastly, academics seem to prefer the principles-based freedom fighter approach or are modifiers to a larger extent.

Even though these trends can be observed they are quite weak because among the constituent types there is not one opinion held by more than 45% of the constituents in one constituent type. Therefore the explanatory powers of the traditional distinction between attesters, preparers and users, as well as academics, seem to be rather weak. This is quite surprising because a greater polarization of opinions among the different constituent types was expected since previous studies have proven this phenomenon.

Since positive accounting theory suggests that there should be some explanation to the opinion groups found other approaches were tried. In one approach, the constituents were classified into different lines of businesses such as banking/finance, accounting, insurance and industry, instead of the four constituent types. This classification did not explain the opinion groups to any large extent either. The trends were even weaker and more inconsistent than the trends observed above. This classification was therefore not further examined.

The conclusion is that the traditional distinctions made between attesters, preparers, users and academics best explain the different opinion groups compared to the other approaches used. But the traditional distinction's explanatory power of the opinion groups is rather weak and it is therefore not possible to state that there are similar interests behind the opinions found. In the next section one step back is therefore taken and another approach is used in which the explanation for the opinion groups is sought among the arguments used by the constituents.

7.2. Concerns within and across the opinion groups

In the previous section, we examined whether the constituent types can explain the six opinion groups. The result from this examination shows that the correlation between these two categories is quite weak. In this section, we therefore try to find explanations for the opinion groups by looking at the constituents' arguments.

The arguments indicate the reasons for the constituents' specific opinions. The question is whether the constituents' arguments can reveal any general concerns with fair value accounting. If such concerns are found, this section becomes specifically interested in revealing whether there is a pattern in concerns within, as well as across the opining groups.

The arguments used by the constituents within each opinion group are very similar in that they express uniform concerns regarding fair value. More specifically, we have found that every traditionalist expresses that fair value accounting is not preferred because it lacks reliability and prudence and all freedom fighters were concerned with the practical implications of a rules-based final standard. The MVT opponents express a uniform concern for the costs related to the use of multiple valuation techniques, while all modifiers were concerned with the practical application of the proposed statement. Among the Accepters and the Nonsayers, no arguments could be discovered and therefore no general concerns with fair value accounting could be found within each of these two groups.

It is thus revealed, that the same kind of reasoning is used by all constituents in each opinion group. The constituents in one opinion group do not only state the same opinion, they also give similar arguments for this opinion. This implies that it is likely that the constituents in each opinion group share some attribute, which apparently is not any of the traditional attributes (attester, preparer or user) usually assigned to constituents.

What is even more interesting is that similarities can also be found across the opinion groups. It is not only the constituents within the same opinion group that share the same concerns about fair value accounting but also constituents across the opinion groups share the same concerns. This implies that the opinion groups can be combined together when they consist of constituents with similar concerns and views about fair value accounting. The results from these combinations are further analysed in the coming sections.

7.2.1. User concern

Traditionalists and freedom fighters actually seem to be addressing the same question even though they have different opinions. They are concerned with the general concepts and purposes of accounting and they do not address the issues outlined by the Board in the Exposure Draft. Instead the constituents within these two opinion groups address a different question, in which they provide their view on the overall purpose of accounting.

Traditionalists and freedom fighters seem to be more concerned with giving weight to the classical principles of prudence, relevance, accuracy and reliability than to comment on specific rules. They do not accept the rules-based fair value concept given by the Fair value hierarchy and the requirement to use multiple valuation techniques. This clearly show that even though they have different opinions they seem to share the same view in which the purpose and principles of accounting are more important than specific rules and regulations expressed in the proposed statement. When comparing the Traditionalists and the Freedom fighters with those who have preparer concern (see below), we see that traditionalists and freedom fighters seem to have less explicit self-interested goals in accounting because they apply a more holistic view and seem more concerned with the overall purpose of fair value accounting.

Since traditionalists and freedom fighters do not comment on specific issues, but more on general purposes of fair value accounting, their views seem to be more user-oriented. Their arguments do to some extent express concerns for the results of the rules in the proposed statement rather than expressing concern for how to apply the rules. It is argued in their comment letters that if their suggestions are applied to a final standard, the classical principles of prudence, relevance, reliability and accuracy will be maintained.

In conclusion, the constituents in these two different opinion groups give different weight to the principles but they both have user-oriented concerns about the effects of the proposed statement. Traditionalists and freedom fighters accordingly have the same holistic and user-oriented concern with accounting and they can therefore be combined into one group with the one common attribute, namely user concern.

7.2.2. Preparer concern

MVT opponents and modifiers seem to be concerned with the application of the specific rules and regulations expressed in the proposed statement. The one thing that the constituents in these two opinion groups have in common is that their main concerns relate directly to themselves. If for instance, a certain valuation principle would apply to them, they investigate it carefully and argue for modification or removal if they do not approve with it.

These constituents also have many arguments for clearer rules and they request certain parts of the proposed statement to be clarified in order to make it easier for them to apply the rules. They seem to have a higher degree of self-interest in their comments than traditionalists and freedom fighters which are more concerned with the general purposes of fair value accounting. Consequently, MVT opponents' and modifiers' main concern is in finding out how the final standard will affect them and they will therefore lobby for standards with a more explicit self-interested goal than the Traditionalists and the Freedom fighters.

They pay no interest to the big questions such as what the purpose of accounting really is or do not discuss the weight given to the classical principles of prudence, relevance, reliability and accuracy. They implicitly accept the valuation of assets and liabilities based on fair value and that the relevant approach is a rules-based one based partly on the concept of Fair value hierarchy and multiple valuations techniques.

In conclusion, the views and arguments put forth by MVT opponents and modifiers seem to be concerned with how to prepare financial statements in accordance with the proposed statement. Their views and concerns are therefore mostly consistent with preparer concern, which are also indicated by the more explicit self-interested goal described. Accordingly we can merge these two opinion groups into one group with a preparer-oriented view on accounting.

7.2.3. No concern

It is not possible to outline any specific concerns among the Accepters and the Nonsayers. Anyhow they are more closely related to a preparer concern since they accept the rules-based fair value concept with the Fair value hierarchy and multiple valuation techniques, and do not comment on any of the big issues. Further more, nonsayers have minor concerns about issues that are not examined in this study. The constituents in these two groups however accept the general requirements outlined in the proposed statement.

In conclusion, accepters and nonsayers do not have any observable clear-cut views on accounting and they are therefore combined into a group based on no concern.

7.2.4. Contrasting concerns with constituent types

The previous three sections presented three different concerns expressed across the six opinion groups. These concerns are classified regardless of the distinctions made between, attesters, preparers, users and academics. It is concluded that traditionalists and freedom fighters both share user concern about accounting, while MVT opponents and modifiers share preparer concern. It is thus revealed that the opinion groups share the same concerns across the groups even though they express different opinions. The six opinion groups are simply added together as described in the three previous sections and the three new groups can be seen on the left vertical axis in table 7.2 below.

Table 7.2: Constituent breakdown into concern groups

Constituent breakdown into concern groups	Attester		Preparer		User		Academic		Total	
	Number	% of categ.	Number	% of categ.	Number	% of categ.	Number	% of categ.	Number	% of total
User concern	3	15.0%	10	23.3%	6	24.0%	2	40.0%	21	22.6%
Preparer concern	14	70.0%	23	53.5%	17	68.0%	3	60.0%	57	61.3%
No concern	3	15.0%	10	23.3%	2	8.0%	0	0.0%	15	16.1%
Total constituents	**20**	**100.0%**	**43**	**100.0%**	**25**	**100.0%**	**5**	**100.0%**	**93**	**100.0%**

The purpose of this section is to contrast the new groups of concerns with the four constituent types used in this study. The difference from section 7.1 is that this section will instead use these constituent types as a describing variable for the major concerns among the constituents within and across the opinion groups.

One could expect that those constituents classified as users have user concern and constituents classified as preparers have preparer concern. When comparing the concerns between the constituent types however, this is apparently not the case.

The most remarkable trend in the table above is that preparer concern actually is more common among attesters (70%), users (68%), and academics (60%) than among preparers (approximately 53%), which is somewhat surprising. It is also observed that the constituent type that has the largest share of constituents with preparer concern are attesters (70%), which is in line with what was expected since attesters usually are more involved in preparing than using accounting information.

User concern is as common among users (24%) as among preparers (23.3%) but more common than among attesters (15%) end less common than among academics (40%). It is quite surprising that the constituents classified as users are not the ones with the highest degree of user concern.

The total data in the right column shows that preparer concern is the significantly most common concern among the total number of constituents with approximately 61% of the total constituents, followed by user concern with almost 23% and the constituents with no observable concern with approximately 16% of the constituents. Preparer concern is thus the dominant concern among all constituent types.

8. Concluding discussions

In this chapter we summarize the findings of this study and contrast them with the theories presented. The results are also discussed in the sections describing the reliability and validity of this study. More specifically, this chapter answers the research question that was stated in the beginning of this study.

8.1. Summary and conclusions

The purpose of this study is to gain an understanding for the different comments expressed by the constituents as well as observing whether there are similar interests behind these comments. The study is specifically concerned with finding patterns of opinions among the comment letters (constituents) and tries to explain if these opinions are supported by similar types of constituents.

This study is not attempting to describe a phenomenon among the 93 observations and thereafter apply the results from this on a population. In other words, the 93 observations are not to be seen as a sample that represents a general population. For instance, we cannot say that since 70% of the total number of attesters in this study has preparer concern, 70% of the total number of attesters in the population has the same concern.

With the purpose kept in mind we have attempted to answer the following question;

1) C*an any major opinions about fair value measurements be found in the 93 comment letters responding to the proposed statement of Fair value measurements?* and 2) *if there are major opinions found in these comment letters, can they be explained by interest groups as prevailing theories predict?*

The answer to the first part of the question is that major opinions were found in the 93 comment letters. These were found in the beginning of the study when we actively looked for opinions independently from the constituents who wrote them. The opinions were formed into six groups namely, *the Traditionalists, the Freedom fighters, the MVT opponents, the Modifiers, the Accepters* and *the Nonsayers.*

Traditionalists express the most negative (strongest) opinion about the proposed statement since they propose that assets and liabilities should be valued according to historical cost accounting. Freedom fighters are a little less negative (and less conservative) and argue that a more principles-based fair value concept will enable entities to make better estimates of fair value. MVT opponents are opposing the concept of requiring multiple valuation techniques for level 3 estimates. Modifiers largely accept the provisions of the proposed statement but require minor modifications and clarifications. The last group in scope for this study is the Accepters, in which the constituents express an acceptance towards both the Fair value hierarchy concept and the requirement to use multiple valuation techniques. They are therefore expressing the most positive (weak) opinion about the proposed statement. Lastly, the group out of scope is the one that consist of nonsayers and they do not comment or argue anything on the Fair value hierarchy concept and multiple valuation techniques requirement.

After forming these opinion groups the study was continued by classifying the constituents, independently from the opinion groups, according to the four constituent types defined as attesters, preparers, academics and users of accounting information. The main concern was to find out whether the opinion groups could be explained by these four constituent types. The results from this study revealed a rather weak explanation for the opinion groups even though slight trends and patterns could be observed. Alternative approaches were therefore used. For example, the constituents were instead classified into lines of businesses. However, no explanations were found with this approach either.

The last approach was to examine the arguments within the opinion groups. Through this approach the six opinion groups could be combined into three concern groups. These are user concern consisting of the Traditionalists and the Freedom fighters, preparer concern consisting of the MVT opponents and the Modifiers and lastly, those with no observable concern consisting of the Accepters and the Nonsayers.

These three groups of concerns could not be explained by the four constituent types either. The trends were actually the opposite to what was expected. The data showed that the classification of constituent types did not correspond with the different types of concerns.

The major conclusions are that the four constituent types cannot explain the opinions or concerns expressed in the comment letters. Common views on accounting among the same constituent types cannot be clearly observed. That is; the opinion groups we have found do not consist of constituents with the same views and opinions on accounting. This implies that evidence of the existence of interest groups could not be observed in this study. A great part of the constituents however, seem to have either a preparer-oriented or user-oriented view on accounting. It is therefore concluded that the second part of the question stated in the beginning of the study is partly answered.

Does this mean that this study and its findings are conflicting with the described theories? To be able to answer the second part of the question in full, the findings are in the following two sections contrasted with positive accounting theory and worldview theory.

8.2. Theoretical implications

In traditional accounting literature the distinction between attesters, preparers and users has been a reoccurring theme. It has often been argued that this distinction should be a good means of explaining how different constituents lobby on accounting standards.[61] It was therefore expected that the opinion groups in this study could be quite well explained by this distinction and consequently this would be in line with positive accounting theory.

The reasoning is that all constituents within a certain constituent type should have about the same interests in accounting and therefore lobby in the same direction in the standard-setting procedure. The assumption stating that constituents lobby according to their own self-interest is thus supported by positive accounting theory.

As outlined above the study was not able to find the expected patterns. The distinction made between attesters, preparers, users and academics provided a rather weak explanation for the opinions expressed in the comment letters because the interests were quite dispersed among the constituent types. It is therefore concluded in this case that the constituent types do not form any clear interest groups. Consequently, this implies that the weak support for the traditional distinction as a describing variable for the opinion groups found is not in line with what positive accounting theory predicts. There are no implications that any interest groups with similar self-interested goals are found in the lobbying procedure on the proposed statement on Fair value measurements.

If we instead turn to the other approach in which we outline the arguments and main concerns of the constituents, the results become a little bit more understandable when contrasting with theory.

We first take the staring point in worldview theory. According to this theory it should be possible to observe constituents that have *the user's worldview* as well as constituents that have the worldview of common industry responses, or simply stated a *provider's worldview*.[62] When conclusions were drawn on the concerns of the constituents, three concern groups were formed. As mentioned above, these groups consist of constituents with user concern, preparer concern and no concern.

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[61] For example, Saemann (1999).
[62] Laughlin & Puxty (1983), p. 465.

When looking at the user's worldview first, it is revealed that user concern correlates rather perfectly with what worldview theory predicts. Worldview theory predicts that some constituents will in some cases adopt the user's worldview when they are more concerned with the basic principles and purposes of accounting. In this study, user concern is found among traditionalists and freedom fighters. Their lobbying is focused on how to measure income and wealth rather than focused on changes of detailed rules. They are instead more concerned with the overall principles of accounting. Accordingly, it seems rather clear-cut to conclude that the constituents classified as having user concern can be seen as also having adopted the user's worldview.

Worldview theory can also be applied in this context because this study revealed that the constituents with user concern are not only classified as users but also other types of constituents (attesters, preparers and academics) are found to have user concern thus adopting the user's worldview. For example, audit firms and academics as well as industry companies are found to have adopted the user's worldview even though they are classified between the other three types of constituents. It is therefore concluded in accordance with worldview theory that the constituents do not seem to be bound to lobby according to the constituent type they are. The constituents clearly seem to be able to adopt different worldviews under different circumstances.

Similar conclusions can be drawn from comparing preparer concern with the provider's worldview. MVT opponents and modifiers are classified as having preparer concern and they clearly seem to be more interested in their own survival and profitability (indirectly as well as directly) than the general principles and purposes of accounting. They observe how the specific rules in the standard will affect them and accordingly, they file comments and lobby for changes that can benefit themselves. We can therefore conclude that the constituents that are classified as having preparer concern clearly seem to have adopted the provider's worldview because as this worldview states, constituents within this group are mainly concerned with the prosperity of their enterprises. Among the constituents with preparer concern some attesters, users and academics are found as well and they seem to have adopted this worldview too.

Among the constituents that have adopted the provider's worldview, the clear self-interest goals for accounting that is predicted by positive accounting theory can be observed. Therefore this study cannot entirely state that this theory is not applicable to the findings because all the constituents with preparer concern make some kind of comment that is clearly supposed to be favourable to them. Often it is not a case of earnings management or similar but an expression of their will to make the rules easier to apply. They mostly request clarification of rules, which apply to themselves or removal of the requirement to use multiple valuation techniques.

The overall conclusions that can be drawn from the section above are that the matter of interest groups in fair value accounting is a rather complex one. The common distinction between attesters, preparers and users as well as this study's own distinction of academics do not provide much of an explanation for the different opinions. At the first look the self-interested goals in standard-setting predicted by positive accounting theory, therefore cannot be observed.

When the opinion groups are further examined it clearly shows that traditionalists and freedom fighters seem to have adopted the user's worldview in accordance with worldview theory. Modifiers and MVT opponents on the other hand seem to have adopted the provider's worldview. Among the constituents who have adopted preparer concern, which also is in line with the provider's worldview, the self-interest predicted by positive accounting theory is now observed. Preparer concern is the largest group with approximately 61% of the total constituents (see table 7.2). This implies that a large amount of the opinions can actually be explained by the self-interest predicted by positive accounting theory when the six opinion groups have been combined into three groups of concern.

Among the comments put forth by constituents with the user's worldview, self-interest could be implied but was not explicitly expressed. To be able to explain these constituents' opinions, worldview theory has to be adopted, and it predicts that some constituents will be more concerned with the overall purpose and principles of accounting,

In summation, the opinions can be explained by worldview theory and in the provider's worldview the self-interest predicted by positive accounting theory can be observed. Therefore worldview theory and positive accounting theory together explain approximately 83% (61%+22% in table 7.2) of the comment letters submitted.

The remaining 16% consist of the Nonsayers and the Accepters and they are the ones that do not express any specific concerns and are therefore unclassifiable in the matter of worldviews. It is consequently hard to draw any conclusions from them but they are more likely to be explained by the provider's self-interested worldview than the user's worldview because they do not express any concern about the purposes and principles of accounting. Accepters are assumed to accept the proposed statement as such and nonsayers express opinions on very specific subjects that relate directly to them but that are not included in this study. The undetected patterns among these specific issues are not further examined here but could be subject to further research.

8.3. Why these (surprising) results?

At first sight one can find it rather surprising that the well known positive accounting theory is not applicable to these data. The Watts & Zimmerman study presented has shown a quite clear correlation between what could be assumed to be constituents' interests and the opinions they express in their comment letters.

We believe that the main reason for this study's inability of using the traditional interest groups as a describing variable for the opinions in the 93 comment letters is that the concept of fair value accounting is quite a new one. The constituents do not have any clear overviews on the effects of the implementation of fair value accounting. Therefore we believe that the constituents have the following important choices to make: should they address the basic principles and purposes of accounting in the proposed statement, or should they consider the practical implications of the proposed statement for themselves?

In addressing the first choice they end up as either traditionalists or freedom fighters. If they address the second choice they end up in accepting the proposed statement suggesting; modification and removal of the requirement to apply multiple valuation techniques or, they choose to address a rule that was not in the scope for this study.

Why constituents choose to address a certain choice is not investigated in this study but can be subject to further research. Another suggestion for further research, which is not related to the conclusions however, is to look at the final standard issued by the FASB on fair value measurements and try to discover what impact the 93 comment letters had on the proposed statement. More specifically, it could be interesting to see what the Board decided to do with the comments relating to the Fair value hierarchy.

This section ends by concluding that the two current theories had to be combined in this study in order to explain the opinions with the constituent types. In other words, the two theories were in their pure forms not able to provide explanations for the opinions observed among the constituents.

8.4. Reliability and validity in a qualitative study

When a study is being performed, random or systematic errors can occur in the development of the question, the clustering of constituents into the relevant groups or the collection of information. These errors also affect the results of a study. This is something that we have been aware of through out the whole research and it is only through continuous questioning and testing of the material that reliability and validity can be achieved. [63]

8.4.1. Reliability

Reliability is the extent to which evidence from a study is independent of the person using it.[64] It is determined by the procedure of the study and how thorough researchers are when they use the information. A high degree of reliability is thus achieved when different and independent measures of the same occurrence give the same results.[65]

The reliability is also dependent on how information is interpreted and consequently it does not have the same central position in a qualitative study as it has in a quantitative study. The reason for this is that a qualitative study's main focus is to gain an understanding for the problem being studied, and this in turn gives room for the researchers' own interpretations and perceptions of the information.[66]

In this study, we have read and interpreted 93 comment letters and this procedure can be quite subjective and could therefore give a modest degree of reliability. The reliability becomes dependent on how the information is interpreted. All comment letters were read approximately two times independently and individually as well as screened several times when needed. The individual conclusions we made were always discussed. This was done in order to make sure that we had understood the information correctly.

Even though we have attempted to be thorough in the different procedures in this study there is always a risk that own values and understandings affect how the comment letters are interpreted. The clustering of the constituents into opinion groups and constituent types are procedures which are affected by our interpretations. It was sometimes difficult to cluster the opinions into groups because some opinions were similar. We tried to circumvent this by always discussing each comment letter and classified the comment letters after their strengths in opinions which are defined in previous chapters. To some extent categorizing was also necessary.

When it comes to the four constituent types it was revealed that they were not able to explain the opinion groups. Another interesting finding showed that users and prepares did not correspond with user concern and preparer concern, respectively. Even though worldview theory can explain the last phenomenon described we are aware of that the classification of constituents into constituent types could have been made differently and that this would have given different results. We highlighted this problem in the study and we specifically described that the distinction between users and preparers is not obvious. For example, banks can respond as both users and preparers in different situations. To circumvent the issue of not being able to classify the banks into one constituent type we decided to make the classification according to accounting literature which classifies constituents after the lines of businesses they are active in. Consequently, the classification was made independently from the opinion groups found in this study and the banks were classified as users and not preparers.

The results can also be affected by the choice of delimitations. We have limited ourselves to study the comments on the Fair value hierarchy and its related issues and this delimitation does not represent the full contents of the comment letters. Therefore it could be argued that these specific comments cannot say much about the interests among the 93 constituents. This is why we in the beginning of the study, before the delimitation was determined, read all comment letters in full and independently from each other in order to be as sure as possible that the delimitation could serve as a reliable source

[63] Holme & Solvang (1997), p. 163.
[64] Ryan et. al. (2002), p. 155.
[65] Holme & Solvang (1997), p. 163.
[66] Holme & Solvang (1997), p. 94.

of information for the results. This initial reading of all comment letters was also an attempt to make sure that we did not miss any information regarding the limited area.

8.4.2. Internal and external validity

Internal validity is the degree to which the data is in some sense an accurate reflection of the real world[67], and it concerns to what extent researchers actually measure what was intended to be measured. Generally the qualitative method is to prefer in this context since a high degree of validity is important. The flexibility in the qualitative method makes it possible to adapt to new situations and due to this fact, researchers can change the question and procedure as the study evolves over time. It is therefore easier to obtain valid information when conducting a qualitative study.[68] This study has been quite flexible because we have been able to adapt to new insights and information. And as the study has evolved and as patterns of interests have not been found we have always tried and been able to find new approaches.

The extent to which the results of a study may be generalized to other samples is termed the external validity.[69] In a qualitative study, generalization is a weakness because researchers are concerned with understanding a certain problem rather than making general conclusions.[70] When it comes to this study's data as a reflection and generalization of the real world we have had some concerns. In this case it could be useful to carry out the study with a quantitative method as well, which however was not fully possible. The reason for this is the impossibility of testing the data found with any statistical tests. The option of performing a chi2-test on the data found was discussed with a professor at the Stockholm School of Economics[71], and from this consultation and brief studies in statistics it was revealed that the data could not be tested in a chi2-test or in any other statistical tests for two reasons. Firstly, nothing can be said about the relation between the sample of 93 comment letters and a population. An ultimate test of a sample design is how well it represents the characteristics of the population it claims to stand for[72] and it is not possible to perform an ultimate test in this case, because the population in this study is unknown. The reason why the population for this sample cannot be determined here is that there might be several unknown potential constituents that for some reasons choose not to respond to the Exposure Draft in comment letters.

The second reason for not being able to carry out the chi2-test is that the data is not randomly chosen. The data is instead subject to self-selection bias. That is; there is no other data to choose from than the data given by the 93 comment letters and the Exposure Draft. And as with all other data it is important that it meet the criteria of a certain statistical test's requirements which this study's data simply does not. The correlated observations are simply too few.[73]

For the reasons stated above, the question and purpose have been carefully defined so they concern with finding patterns within the sample of the 93 comment letters without saying something about the general population.

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[67] Ryan et. al. (2002) p. 155.
[68] Holme & Solvang (1997), p. 167.
[69] Ryan et al. (2002), p. 125.
[70] Merriam (1994), p. 183ff.
[71] Per-Olov Edlund, Associate Professor, Department of Economic Statistics and Decision Support at the Stockholm School of Economics.
[72] Emory (1985), p. 277.
[73] Some calculations were made and averages below 5 were found, which is the minimum average required to be able to perform a chi2-test.

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Appendix I

FASB due process steps required by the rules of procedure[74]

The FASB has established the following procedures for developing accounting standards. These procedures are used for major agenda projects. Not all of the steps may be necessary for application and implementation projects. Many other steps are followed during the course of the project that are not specifically required by the Board's Rules of Procedures.

1. The Board receives requests/recommendations for possible projects and reconsideration of existing standards from various sources.
2. The staff summarizes the information it receives and discusses its findings at a public Board meeting as part of the agenda-decision-making process.
3. The Board votes on whether to add the project to its agenda. A simple majority vote is needed.
4. The Board deliberates the various issues identified and analyzed by the staff at a series of public Board meetings.
5. The Board issues the Exposure Draft. (In some projects, the staff may prepare and issue an Invitation to Comment or Preliminary Views prior to the Board issuing an Exposure Draft.)
6. The Board holds a public roundtable meeting on the Exposure Draft, if necessary.
7. The staff analyzes comment letters, public roundtable discussion, and any other information and the Board redeliberates the proposed provisions at public meetings.
8. The Board issues a Statement or Interpretation by simple majority vote.

[74] www.fasb.org.

Appendix II

Overview of comment letters and classification

Table 1.0: Overview of comment letters and classification

Comment letter	Constituent	Type of constituent	Traditionalist	Freedom fighter	MVT opponent	Modifier	Accepter	Nonsayer
1	John A. Braden & Company, P.C.	Attester	Yes					
2	Paul Rosenfield	Preparer		Yes				
3	Robert N. Anthony	Academic		Yes				
4	Florida Institute of CPAS/APASC	Attester					Yes	
5	King Valuation Services, LLP	Preparer		Yes				
6	Professor Richard Macve, London School of Economics	Academic				Yes		
7	KPMG, LLP	Attester			Yes			
8	Navy Federal Credit Union	Preparer						Yes
9	Eugene H. Flegm CPA	Attester	Yes					
10	Financial Institutions Accounting Committe	User	Yes					
11	Virginia Credit Union Inc.	Preparer				Yes		
12	Illinois CPA Society/APC	Attester				Yes		
13	Accounting and Auditing Standards Committe, Society of Louisiana Certified Public Accountants	Attester					Yes	
14	TBMA, ISDA, SIA	User				Yes		
15	Occidental	Preparer						Yes
16	Independent Community Bankers of America	User				Yes		
17	JPMorgan Chase & Co	User		Yes				
18	Hewit Associates, LLC	Preparer				Yes		
19	Americas Community Bankers	User					Yes	
20	Georgia Federal Credit Union	Preparer				Yes		
21	American Academy of Actuaries	Preparer				Yes		
22	National Rural Electric Cooperative Association	Preparer	Yes					
23	MBNA Corporation	User			Yes			
24	Goldman Sachs Group, INC	User				Yes		
25	JWM Partners, LLC	User				Yes		
26	Williams	Preparer				Yes		
27	Leon M. Metzger	Attester			Yes			
28	Appraisal Institute	Preparer			Yes			
29	NYSSCPA	Attester				Yes		
30	Humphrey Nash	Academic		Yes				
31	Totem Market Valuation Limited	Preparer		Yes				
32	Merril Lynch	User		Yes				
33	Chuck Dolezal	Preparer						Yes
34	Appraisal Standards Board	Preparer				Yes		
35	RBC Finacial Group	User			Yes			
36	Washington Society of Certified Public Accountants	Attester				Yes		
37	XL Capital, LTD	Preparer				Yes		
38	Computer Sciences Corporation	Preparer	Yes					
39	Arnold & Porter, LLP	Preparer						Yes
40	Texas Society of Certified Public Accountants	Attester				Yes		
41	Principal Financial Group	User			Yes			
42	Financial Consulting Group	Preparer			Yes			
43	Group of North American Insurance Enterprises	Preparer			Yes			
44	Swiss Re	Preparer			Yes			
45	Morgan Stanley	User		Yes				
46	MetLife Inc.	Preparer			Yes			
47	Michigan State University (K. Ramesh, Professor of Accounting and Information Systems)	Academic			Yes			
48	Deutsche Bank	User			Yes			
49	Freddie Mac, (FM)	Preparer		Yes				
50	The American Council of Life Insurers, (ACLI)	Preparer			Yes			
51	Citigroup	User		Yes				
52	IVSC, (International Valuation Standards Committee)	Preparer						Yes
53	BDO Dunwoody	Attester				Yes		
54	American Accounting Association/FASC	Attester				Yes		
55	Credit Suisse Group	User			Yes			

56	Toyota Motor Credit Corporation	Preparer				Yes		
57	Calpine	Preparer			Yes			
58	PriceWaterhouseCoopers LLP	Attester		Yes				
59	Grant Thornton LLP	Attester				Yes		
60	Crowe Chizek and Company, LLC	Attester						Yes
61	Lehman Brothers	User				Yes		
62	Microsoft	Preparer				Yes		
63	Lockheed Martin Corporation	Preparer		Yes				
64	Washington Mutual Inc., (WMI)	User				Yes		
65	Constellation Energy	Preparer						Yes
66	Georgia Credit Union League, (GCUL)	Preparer						Yes
67	HBK Investments, L.P	User						Yes
68	Investment Company Institute	User				Yes		
69	Eli Lilly and Company	Preparer						Yes
70	Apprasial Issues Task Force, (AITF)	Preparer		Yes				
71	Deloitte & Touche, LLP	Attester				Yes		
72	Pfizer, INC	Preparer			Yes			
73	University of Sydney/University of Newcastle	Academic				Yes		
74	Credit Union National Association, (CUNA)	Preparer				Yes		
75	National Association of Real Estate Investment Trusts	Preparer				Yes		
76	(TIC)/(AICPA)/PCPS	Attester			Yes			
77	The Accounting Practices Committe, (APC) of the Fiscal and Administrative Officers Group for Community Foundations	Preparer						Yes
78	The 100 Group	Preparer					Yes	
79	Ernst & Young, LLP	Attester			Yes			
80	AcSEC /The Accounting Standards Executive Committee	Attester				Yes		
81	CFA Institute/FAPC	User			Yes			
82	Fidelity Management & Research CO	User			Yes			
83	International Actuarial Association, (IAA)	Preparer				Yes		
84	Bank of America, (BA)	User			Yes			
85	EEI, (Edison Electric Institute)	Preparer			Yes			
86	Financial Executives Institute/CCR	Preparer			Yes			
87	Institute of Management Accountants, (IMA)/Financial Reporting Committee, (FRC)	Preparer		Yes				
88	Federal Reserve Board	User			Yes			
89	Californian society of CPAs	Attester			Yes			
90	Conference of State Bank Supervisors	User			Yes			
91	Equipment Leasing Association	Preparer				Yes		
92	European Banking Industry, (EBI)	User		Yes				
93	Russ Kelly	Preparer		Yes				
Total			**5**	**16**	**26**	**31**	**4**	**11**