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UNIVERSITY OF THE WITWATERSRAND: SCHOOL OF ACCOUNTANCY

Resistance to IFRS 13-Initial insights

A research report submitted by

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In partial fulfilment of the degree of Masters of Commerce in Accounting

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2016

DECLARATION OF OWN WORK

I, Anuradha Pandya (student number 535715), hereby declare that the work contained in this thesis is my own and can, therefore, be submitted in my name in partial fulfilment of the degree of Masters of Commerce in Accounting for the School of Accountancy. It has not been submitted elsewhere for the purpose of being awarded another degree or for examination purposes at any other university.

SIGNED	DATED
Anuradha Pandya	20 October 2016
Anuradha Pandya	20 October 2016

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II. Abstract

This paper explores the logics of resistance to fair value accounting, which entails the motivations to resist, as well as the mechanisms of resistance. It applies an interpretive approach to investigate this, using data collected from interviews with a sample of South African accounting professionals. The study demonstrates that while fair value accounting is being applied in the financial statements of organisations from a legalistic perspective, the application is superficial and ceremonious due to an established culture of compliance, and the need for funding, which engenders a 'tick the box' approach. The superficiality of application is complimented with a range of motivations to resist IFRS 13, which stem from practical concerns as well as theoretical, to create for a resistant attitude to fair value accounting. This resistance has been evidenced in this study, to manifest in various mechanisms that can be employed to avoid fair value accounting. These mechanisms are indicative of decoupling since they involve gaps being created between the purpose of financial statements, and the financial statements prepared, without blatant disregard of fair value accounting principles.

These findings have been used to formulate recommendations which may be useful for preparers of financial statements, auditors and standard setters alike. While the aim of the study is not to identify deficiencies of fair value accounting principles, the consequence of exploring logics of resistance to fair value accounting is that it highlights areas that require further assessment in order to achieve the objectives of standards.

Keywords: IFRS 13, fair value, isomorphism, logic of resistance, business model, decoupling

III. Abbreviations

IFRS	International Financial Reporting Standards
IASB	International Accounting Standards Board
FASB	Financial Accounting Standards Board
SFAS	Statement of Financial Accounting Standards
IASC	International Accounting Standards Committee
IAS	International Accounting Standard
Big Four	Refers to the 4 biggest auditing firms in South Africa namely: Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers (in alphabetical order)

1 Introduction

1.1 Purpose of the study

The purpose of this study is to explore logics of resistance to fair value accounting. Fair value accounting has been highlighted as the contentious issue in this study because of its increasing prevalence and influence over accounting standards (Durocher & Gendron, 2014; Power, 2010). Its significance extends beyond the boundaries of measurement technicalities as it represents a change process that is globally applicable (Power, 2010). The fair value accounting prescribed in IFRS 13 is specifically dealt with in this study because it is the relevant standard when other IFRSs require or permit fair value measurement, making it central to this research (IASB, 2011).

1.2 Research question

Is there evidence of organisations employing logics of resistance to avoid implementing IFRS 13?

This can be broken down into the following sub-questions:

A) Is fair value accounting being applied in the financial statements of organisations?
B) What, if any, are the motivations for organisations wanting to resist applying IFRS 13?
C) What are the mechanisms that organisations could employ to resist applying IFRS 13?

1.3 Context of the study

IFRS 13, issued by the IASB in May 2011, defines fair value and sets out, in a single IFRS, the requirements for measuring and disclosing fair value (IASB, 2011). The purpose of the development of IFRS 13 can be placed within a greater objective of converging IFRS with US GAAP, as set by the FASB, in an attempt to preserve the ideal of comparability and create a common set of high-quality global accounting standards (IASB, 2011). In addition, the development of IFRS 13 was part of the IASB's reaction to the global financial crisis, which indicated that there was a need for clarification on how to measure fair value when the market for an asset or liability becomes less active; and a need for an improvement in the transparency of fair value measurements through disclosures about measurement uncertainty (IASB, 2011).

Since the financial crisis, there has been an abundance of academic research addressing whether fair value accounting causes artificial volatility and if this volatility contributed to the crisis (Bengtsson, 2011). There has been less literature investigating the response in practice to the financial reporting guidelines ensued as a result of the crisis. For this reason, the application of IFRS 13 will be the focus of the research in this paper.

The research will be undertaken by investigating an organisation's commitment to fair value accounting principles, using institutional theory. Institutional theory has been used widely to examine why organisations implement formal structures, such as IFRS (Carruthers, 1995; DiMaggio & Powell, 1983; IASB, 2010a; Meyer & Rowan, 1977). Emerging from institutional theory is an understanding of a process called decoupling, in which gaps are created between symbolically adopted formal structures and actual organisational practices (Meyer & Rowan, 1977). An understanding of these gaps will be useful in identifying possible logics of resistance to IFRS 13.

1.4 Significance of the study

The majority of the literature on fair value accounting focuses on its history, analyses its underlying assumptions and implications, and evaluates its appropriateness (Durocher & Gendron, 2014; Georgiou & Jack, 2011; Power, 2010; Whittington, 2008; Zhang & Andrew, 2014). Despite the fact that prior literature examines tensions created by fair value accounting (Durocher & Gendron, 2014; Georgiou & Jack, 2011; Power, 2010; Whittington, 2008), few papers address the possibility of resistance to it (Maroun & van Zijl, 2015). This paper will explore the logics of resistance to the fair value accounting treatment prescribed by IFRS 13 and is an extension to the existing body of fair value accounting literature by way of its examination of tensions with accounting standards within the professional practice space (Durocher & Gendron, 2014). This is especially relevant considering that IFRS 13 is a recently issued standard. In this way, this paper brings to light a lesser-studied aspect of financial reporting.

Simultaneously, the paper will also address the need for more critical research in accounting, especially from a South African perspective (Maroun & Jonker, 2014). This is pertinent because, as South Africa tries to position itself as the economic gateway to investment into the rest of Africa, accounting research from South Africa is of increasing interest to the foreign investor community (Maroun, Coldwell, & Segal, 2014).

Furthermore, the majority of the prior literature forms part of mainstream accounting research which has a positivist flavour (Durocher & Gendron, 2014; Zhang & Andrew, 2014). There is little literature that provides an interpretative theoretical perspective of fair value accounting (Georgiou & Jack, 2011). Therefore, this study will contribute to this shortage by adopting an interpretative approach. This will also address the need for more interpretative research in South Africa on corporate financial reporting (Maroun & Jonker, 2014).

The practical implication of this research is applicable to standard setters, preparers and auditors. The study does not aim to detect deficiencies in the fair value accounting treatment in IFRS 13; however, a consequence of exploring logics of resistance may result in the identification of areas in IFRS that require further review, in order to achieve the intended objectives of the standard.

1.5 Limitations and delimitations

The paper does not offer an explanation of the technical workings of IFRS 13, and only features relevant to the discussion will be highlighted. In addition, the paper specifically addresses logics of resistance to IFRS 13. As such, the discussion is not necessarily applicable to all IFRS standards but will provide insights that can assist other researchers in investigating other IFRS standards.

This research also, specifically, explores how fair value accounting, as prescribed in IFRS 13, is being applied by preparers, auditors and users of financial statements. Other forms of resistance, such as lobbying by other constituents and dissenting opinions of standard setters in the formulation of relevant fair value principles, do not form part of the scope of this study (Maroun & van Zijl, 2015).

A limitation of this study is linked to the small sample size, which only includes interviewees representing organisations in the mining, manufacturing, real estate and financial services industries, which leads to findings that are not generalisable (Rowley, 2012). A lack of generalisability is also a consequence of the possibility of an interviewee not being representative of the population or having atypical views. This could also be the case if an interviewee's response was rehearsed and not true to their actual views, in order to remain politically correct and remain in line with the views and policies of their employing organisation (Alvesson, 2003). Furthermore, the sample only included South African practitioners, which could result in data being skewed due to the risk of specific cultural dimensions of the jurisdiction affecting the data.

However, this is not considered to invalidate findings because South African companies are required to, in terms of company law and listing requirements, comply with IFRS. This implies that a significant level of knowledge and understanding of IFRS 13 can be expected from research participants. In addition, many of the interviewees have international work experience, are based at multi-national organisations or are academics with a detailed understanding of financial reporting developments. These factors mitigate the risk of cultural dimensions of the South African context affecting the data and resulting in a loss of international relevance (Maroun & van Zijl, 2015).

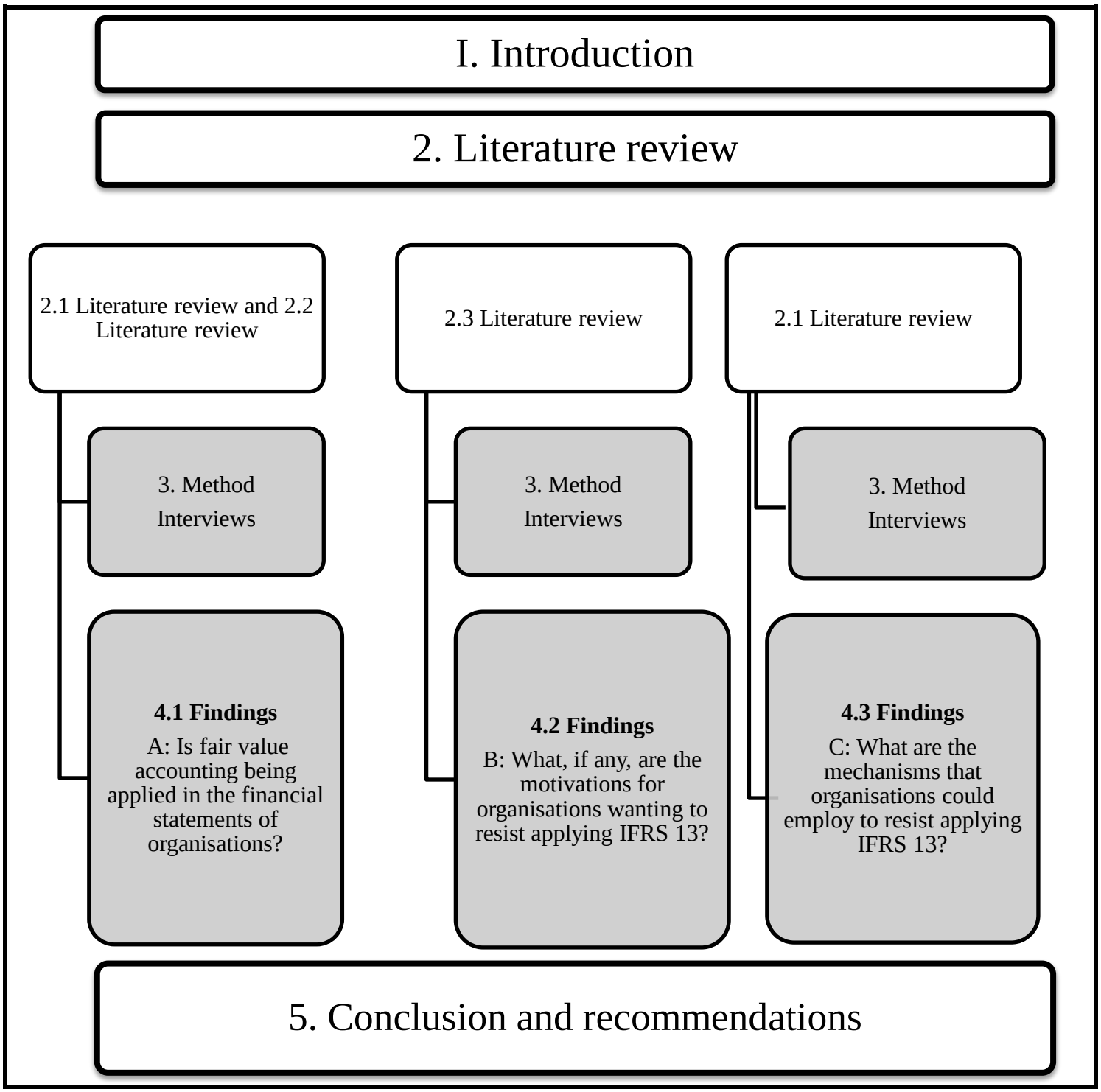
1.6 Assumptions

This paper assumes that accounting is socially constructed (Baker & Bettner, 1997; Suchman, 1995). This social constructivist view is based on the premise that reality, of which accounting is a part of, is constructed through the interactions of actors and their respective social-constructs. This view acknowledges that knowledge is a human product, in which meaning is created by people through their interactions with each other and with the environment in which they operate in (Kim, 2001; Ryan, Scapens, & Theobald, 2002) resulting in the idea of what is true being different for different actors. This social construct is also time-space specific and changes over time (Coetsee, 2011).

1.7 Structure of the paper

The structure of this paper can be broadly summarised as follows: the literature contained in Section 2.1 about isomorphism, along with the fair value accounting literature in Section 2.2, will be used to explore sub-question A in Section 4.1 of the findings. The literature highlighting resistance to fair value accounting contained in Section 2.3 will be used to examine sub-question B in Section 4.2. The literature discussed in Section 2.1 about decoupling will be used to explore sub-question C in Section 4.3. Finally, Section 5 provides summarised findings and identifies recommendations and areas for future research. The structure is illustrated in Figure 1 below.

Figure 1: Structure of the paper



2 Literature Review

This section contains a review of the relevant literature. The aim is to provide a context for the study, as opposed to providing a detailed and complete account of all the related research. Section 2.1 contains a discussion of institutional theory, which includes why the application of IFRS can be explored using the lens of institutional theory. Section 2.2 discusses how fair value accounting, and the development of IFRS 13, form part of the wider IFRS framework of financial reporting. In Section 2.3, literature that deliberates the possibility of resistance to IFRS 13 is included.

2.1 Institutional theory

Institutional theory, according to DiMaggio and Powell (1991), is a paradox. Its philosophy underlines concepts of rational myth, institutional isomorphism and legitimacy (Scott, 1995). Its underlying premise is based on the principle that, in order for an organisation to survive, it must conform to the rules and beliefs prevailing in the environment in which it functions (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). The organisation must conform, and in doing so, will ultimately converge with other organisations operating within similar realms of existence according to the, then, prevailing social construct in which the organisations operate (DiMaggio & Powell, 1983).

The function of this structural and procedural convergence is for an organisation to gain and maintain legitimacy, which is a generalised perception that the actions of the organisation are 'desirable, proper or appropriate within the socially constructed system of norms, values, beliefs and definitions' (Suchman, 1995, p.574). This leads to the understanding that procedures, processes and rules (such as accounting systems) incorporated by organisations into their formal structure are not necessarily the result of a drive for efficiency, but rather are rationalised by the organisation to 'maintain appearances' (Carruthers, 1995, p.315). This leads to the viewpoint that an institutionalised organisation is a product of ceremoniously adopted myths, which are not necessarily the culmination of rational and logical decisions (Meyer & Rowan, 1977).

Emerging from this approach to rational-actor models of the organisation is neo-institutionalism. Neo-institutionalism is a progression of institutional theory, but distinct in the sense that its explanations of the influence of institutions on human behaviour are more cognitively based

(DiMaggio & Powell, 1983). This cognitive perspective adds that, instead of acting based on the rational or predictable application of rules or obligation, actors behave based on conceptions which promote compliance but which also adhere to generally established cultures, norms and routines. This is because non-compliance is inconceivable and because these conceptions comprise of taken for granted practices (Carruthers, 1995).

2.1.1 On the relevance of isomorphism

Isomorphism provides a relevant and widely used framework for explaining why such taken for granted practices are established. Isomorphism has been described by Hawley (1950) as a constraining process that forces one unit in a population to resemble other units, provided that all the units face the same set of environmental conditions. He suggests that organizational characteristics are modified to be compatible with the environment's conditions (Hawley, 1950). This description of homogeneity is complemented in DiMaggio and Powell's (1983) explanation of institutional isomorphism which describes the congruence of organizational forms and practices. Institutional isomorphism is distinguished from competitive isomorphism since efficiency is not the driving factor in institutional isomorphism (Carruthers, 1995). Instead institutional isomorphism is categorized into three different elements namely: coercive, mimetic and normative isomorphism (DiMaggio & Powell, 1983).

Coercive isomorphism results from pressures exerted on organisations by other organisations upon which they are dependent and by cultural expectations in the society within which the organisations function. For example, government mandates, contract law or financial reporting requirements can coerce an organization into adopting new structures (DiMaggio & Powell, 1983). Pfeffer and Salancik (2003) have observed that organisations that rely on the greater power of larger social systems include themselves into a politically constructed environment, which essentially has two features. Firstly, that political decision-makers do not experience the effects of the environment over which they regulate and the impact of their regulations. Secondly, that these political regulations are applied to entire classes of organisations, making these political decisions less flexible or adaptive (Pfeffer & Salancik, 2003).

Mimetic isomorphism is driven by uncertainty that arises when goals are ambiguous; when the environment itself creates symbolic uncertainty; or when organisational structures are not understood. It is essentially a form of modelling processes and structures into those established by a

legitimate organisation, which occurs not necessarily because the latter organisation is proven to be more efficient, but rather because of the appearance of rationality, success or public acceptance (DiMaggio & Powell, 1983). This form of isomorphism embodies the rationale that there is strength in numbers (Carruthers, 1995).

Normative isomorphism arises from professionalization which is interpreted to be the collective struggle of members of an occupation to define the conditions and methods of their work in order to establish a cognitive base and legitimation for their occupational autonomy. The consequences of two aspects of this professionalization process result in the isomorphism. The first is the transfer of formal education in which organisational norms are established; and the second is the growth of professional networks that span organisations, where these same established organisational norms are promulgated. The effect of these two conditions is the development of interchangeable individuals who occupy similar positions in similar organisations and adopt certain orientations that are not overridden by variations in thought (DiMaggio & Powell, 1983).

2.1.2 Decoupling

The effect of institutional isomorphism is that practices become taken for granted, for the sake of convergence; the consequence of which being that these practices are often ceremoniously accepted with no consideration being given to the efficiency of or reason for the practice. In circumstances where these practices conflict with optimal conditions, a process known as decoupling can be employed in which gaps are created and maintained between the formal structure from which the practice emerges, and the actual organisational practice, in an attempt to resolve the conflict between the formal structure and efficiency. The formal structure cannot be blatantly rejected due to institutional pressures, which rationalise the benefits attached to compliance (Meyer & Rowan, 1977). Decoupling is desirable as it allows organisations to create an image of outward compliance, providing them with external legitimacy, without having to change practices substantively; thereby allowing the organisation to maintain its internal flexibility, with which it can address practical considerations (Tilcsik, 2010).

Decoupling is enabled in organisations through tendencies such as the delegation of responsibilities to professionals; the formulation of ambiguous goals; the avoidance of integration; ceremonialisation of activities involving inspection and evaluation; informal resolution of interdependencies and an emphasis on the development of human relations (Meyer & Rowan, 1977).

In essence, decoupling arises when there is a divergence between the adoption decision of a formal policy that stems from institutional pressures, and the ideological beliefs of decision-makers. Its result is the implementation of that formal policy on a superficial level (Tilcsik, 2010). In this regard, the paradoxical nature of institutional theory is revealed (DiMaggio & Powell, 1991).

Recoupling (or coupling) has historically not been a component of institutional theory but is a logical progression of the theory (Espeland, 1998; Hallett, 2010; Tilcsik, 2010). Espeland (1998) found that - in his study of the Bureau of Reclamation - the Bureau's approach to the National Environmental Policy Act[1] gradually shifted from symbolic compliance to actual implementation during the 1970's. Hallet (2010) discovered a shift in an urban elementary school where the hiring of a new principal (a position which represents an institutionalised formal structure) resulted in the coupling of previously decoupled policies and practices. Tilcsik (2010) concluded that the symbolic implementation in an Agency of an algorithmic system ironically changed to substantive implementation when new members (who were recruited to fill the ceremonious position of maintaining the system) entered the Agency. When these members, referred to as reformists since they had an opposing ideological understanding to the existing members, took over, there was a triumph of a new vision of organisational rationality, which dissolved the rationale for decoupling and resulted in the coupling of formal policy and actual practice (Tilcsik, 2010).

The paradox suggested by DiMaggio and Powell (1991) is extended, but in a different sense: 'that the very decision to engage in decoupling may trigger changes that eventually contribute to the erosion of decoupling' (Tilcsik, 2010, p. 1487).

2.1.3 IFRS, isomorphism and decoupling

IFRS is a part of the rules and beliefs prevailing in the current global environment (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), evidenced by the fact that over one hundred countries have adopted them, and the ones that have not, such as the US, have expressed a desire and plans for convergence with IASB standards; indicating worldwide acceptance of these international accounting standards (Clements, Neill, & Stovall, 2010). Institutional theory explains how this will result in

[1] The National Environmental Policy Act is a United States environmental law that promotes the enhancement of the environment; an outcome of which being the requirement that all executive federal agencies prepare environmental assessments and environmental impact statements.

organisations conforming to IFRS in order to gain legitimacy within the global business environment, which is crucial in order for organisations to survive (Rodrigues & Craig, 2007).

The wide-spread conformance to IFRS in South Africa can be viewed as a consequence of institutional isomorphic pressures at play (Maroun, 2012b).In 1994, after the end of the Apartheid era, it was crucial for the country to re-build itself, and reintroduce itself to the global community, after being a pariah to the international community for years, evidenced by wide-spread sanctions against the country (Alden & Le Pere, 2004). Therefore, in 1995, the Accounting Practices Board (APB) made the decision to harmonise SA GAAP with IFRS; a decision which was likely part of the overall legitimization plan (Maroun et al., 2014). Since 2003, after due process, the APB has issued IFRS as SA GAAP without amendment. From 2003, SA GAAP was used by all South African companies. The Johannesburg Stock Exchange (JSE) required listed companies to use IFRS, a decision which was made effective from 1 January 2005 (IFRS Foundation & 2015). In 2011, this requirement was legislated into the Companies Act No. 71 of 2008 (the Act), which prescribed reporting frameworks based on each individual company's public interest score (Companies Act, 2008).

In this regard, coercive isomorphism can be said to have played a crucial part in South Africa's adoption decision since governmental pressures to become legitimate stimulated the harmonization process, and years later the law formalized the decision to adopt IFRS and converge with rest of the world. Mimetic isomorphism is also likely to have played a part since there was bound to be uncertainty regarding the road ahead after the demise of the Apartheid regime; circumstances under which the decision was taken to model after well-established countries, where the use of IFRS was already embedded. Normative isomorphic pressures, which entail professionalization, specifically of Chartered Accountants and Registered Auditors, can be used to explain the fast pace within which IFRS became entrenched within the South African accounting environment (IASB, 2010a).

Therefore, institutional theory provides an appropriate framework to explore the application of IFRS, because it is a formal structure, and as the theory outlined above indicates, implementation of formal structures is a complex process, and the possibility of decoupling and coupling exposes the process to instances of compliance and logics of resistance (Meyer & Rowan, 1977; Tilcsik, 2010; Tremblay & Gendron, 2011).

The development of fair value accounting within the wider IFRS framework of financial reporting, including the introduction of IFRS 13, will be discussed in greater detail in the next section in order to explore this aspect of the current financial reporting environment.

2.2 Fair Value Accounting

The application of fair value accounting prescribed in IFRS can be effectively examined through the lens of institutional theory since the ideologies it embodies operate as principles and beliefs that prevail in the current organisational environment, which as outlined above, is a prerequisite for the application of institutional theory. The existence of fair value dominance can be established through an examination of the history that culminated in fair value accounting, as it is today (Georgiou & Jack, 2011; S. Ravenscroft & P. F. Williams, 2009; Whittington, 2008; Zhang & Andrew, 2014).

2.2.1 Accountability and decision usefulness

According to Power (1977) and West (2003), accounting is unlike other professions as there is not an external referent by which it can be assessed for validity (Power, 1997; West, 2003). Historically, though, the purpose of accounting was to be accountable, which involves a responsibility owed to someone else to manage on their behalf (S. Ravenscroft & P. F. Williams, 2009). This notion of accountability or stewardship being the root metaphor of accounting results in accounting being seen as system of administration (S. Ravenscroft & P. Williams, 2009); and as organisations have developed over time, it is this root metaphor that distinguishes accounting from other information systems within an organisation (Ijiri, 1975) and that explains how management are constrained to act in shareholders' interest (Watts & Zimmerman, 1978).

In the late 1960's, the view that accountability or stewardship was the root metaphor of accounting was overtaken by the information metaphor, which held the notion that the purpose of accounting was to provide useful information to users, identified as investors, creditors and others lenders (IASB, 2010a; S. Ravenscroft & P. F. Williams, 2009). This shift from reliability (stewardship) to relevance (decision-useful information) in the explanation of accounting came about as a result of social and political movements that attempted to establish dominance after World War II, which saw the West (part of the Anglo-sphere) as victors (IASB, 2010a). It was in this transformational time that

neoclassical economics[2], which embodied the West's ideology of neoliberalism[3], emerged (S. Ravenscroft & P. F. Williams, 2009).

Neoclassical economics rationalised the shift in focus of accounting, by transforming it into a sub-discipline of neoclassical economics; the consequence of which was the financialisation of accounting information (Zhang & Andrew, 2014). This transformation was documented in 1978 when the FASB formalised the shift to the information metaphor in its Concepts Statement 1 (S. Ravenscroft & P. F. Williams, 2009) which marked the shift away from reliability and towards relevance (Whittington, 2008). This shift toward the information metaphor gave rise to the conception and application of fair value measurement[4].

2.2.2 A brief history of fair value accounting

Market values first appeared in the FASB's standards in 1979 with SFAS 33, Financial Reporting and Changing Prices which required current costs as well as current purchasing power data to measure transactions. This standard was withdrawn in 1986 due to concerns about the reliability, relevance and appropriateness of the information produced by the standard. However, this changed when the Savings and Loans Crisis exposed deficiencies in historical cost accounting, which prompted the FASB to later issue SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. This re-inclusion of market-based measurements was not a consequence of rational arguments by theorists but by the practical need to include securities in financial statements such that a fair representation of the commitments entered into by entities, can be made (Georgiou & Jack, 2011).

[2] Neoclassical economics focuses on the determination of goods, outputs, and income distributions in markets through supply and demand; and assumes the maximization of utility by income-constrained individuals and of profits by firms facing production costs, in accordance with rational choice theory (Eatwell, Milgate, & Newman, 1987).

[3] Neoliberalism refers primarily to the 20th century resurgence of 19th century ideas associated with laissez-faire economic liberalism, which includes policies such as privatization, fiscal austerity, deregulation, free trade, and reductions in government spending in order to enhance the role of the private sector in the economy (Duménil & Lévy, 2004).

[4] Current values in accounting were in place as early as the late 1800s (Bryer, 2000), however their focus in accounting standards only came about in the late 1900s with the emergence of neoliberalism (Ravenscroft & Williams, 2009).

The IASC, the predecessor to the IASB, first included the concept of fair value in the 1977 draft of IAS 17, Leases (IASB, 2001c). The IASC implemented the fair value paradigm more progressively than the FASB did, by extending the application of fair value to non-financial assets, in IAS 40 Investment Property (IASB, 2001d), and to agricultural activity in IAS 41 Agriculture (IASB, 2001e). This extended application resulted in fair value no longer being solely synonymous with market value but also being seen as an exit price or a discounted net present value (Georgiou & Jack, 2011).

In 1994, UK's Accounting Standards Board adopted the value-to-the-business concept, as a basis for acquisition accounting. The standard, Financial Reporting Standard 7 Fair values in Acquisition Accounting (FRS 7) required that, unless non-monetary assets of the acquired company could be measured at market value, their fair values should be based on replacement cost that should not exceed their recoverable amount at the date of acquisition. This standard introduced a mixed historical cost/current value measurement system into British financial reporting; and played a prominent role in influencing the standards of the IASC and the FASB with regards to business combinations (Georgiou & Jack, 2011).

Business combinations were accounted for by the IASC and FASB using one of two methods, the pooling method (requires the combining of book values of recorded assets on the books of the two merging firms resulting in no goodwill and no fair market values) or the acquisition method (requires that the investment be recorded at the fair market value of the transaction). SFAS 141 Business Combinations and IFRS 3 Business Combinations both abandoned the pooling method for the acquisition method for business combinations, where identifiable assets and liabilities acquired are measured at fair value; valuations that in turn determine the value of goodwill and minority interest of the acquiree (Georgiou & Jack, 2011).

The popularisation of derivative instruments from the late 1980s was the impetus for standard setters developing IAS 39 Financial Instruments: Recognition and Measurement. A Joint Working Group (JWG) comprising the IASC and accounting standard setters from major countries provided the methodology involving entities valuing the present value of its expected cash flows discounted at the current market rate of return to measure their financial instruments. The JWG's objective for accounting on this basis was that it would reduce the incongruities of the existing mixed accounting approach. The development of IAS 39 consolidated the principles of the IASB in respect of fair values

and re-affirmed their commitment to formulating standards that propagate decision usefulness (Georgiou & Jack, 2011).

The culmination of the IASB's fair value paradigm was in its introduction of the IFRS 13 project. The fair value measurement project was added to the IASB's agenda before the global financial crisis; however, the crisis indicated that it was crucial to have common fair value measurement and disclosure requirements in IFRSs and US GAAP (IASB, 2011). This was the case because during the financial crisis, market liquidity of many financial instruments dried up, which made valuation problematic; and led to many financial institutions being forced to use valuation methods based on prices from very few trades, obtaining very low prices that reflected the liquidity that was available to the buyers (Allen & Carletti, 2008). Many claimed that fair valuation contributed to the difficulties experienced by financial institutions during the financial crisis since it put pressure on the balance sheet of financial institutions and forced banks to sell assets at depressed prices; resulting in a negative spiral effect (Bengtsson, 2011).

Due to the severity of the crisis, the IASB understood that there was an urgent need for clarification on how to measure fair value when the market for an asset or liability becomes less active, and an improvement in the transparency of fair value measurements through disclosures about measurement uncertainty. These issues were addressed by the IASB in conjunction with the FASB, in congruence with recommendations of the Group of Twenty (G20) leaders, through the establishment of a Fair Value Expert Advisory Panel that included preparers, auditors, regulators and users of financial statements. Their mandate was to review best practices in the area of valuation techniques and formulate additional practice guidance on valuation methods for financial instruments and related disclosures when markets are no longer active. The requirements of IFRS 13 are consistent with the findings of this Panel and in this regard, a fair value hierarchy was established in IFRS 13, which includes three levels (IASB, 2011).

Level 1 inputs are quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. A quoted market price in an active market provides the most reliable evidence of fair value and is used without adjustment to measure fair value. Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (IASB, 2011).

Level 3 inputs are unobservable inputs for the asset or liability, which are inputs that are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for conditions in which there is little or no market activity for the asset or liability. Unobservable inputs are required to be developed using the best information available in the circumstances, including the entity's own data, while taking into account all information about market participant assumptions that is realistically available (IASB, 2011).

Thus, as the levels increase, the degree of observability of the fair value decreases but the extent of disclosures required increases. For Level 3 inputs, in addition to disclosing the valuation techniques and the inputs used to develop those measurements, the effect of the measurements on profit and loss or other comprehensive income (OCI) for recurring measurement is required to be disclosed. IFRS 13 prescribes minimum disclosures, however, a level of judgment is afforded to preparers to disclose any additional information that may be required to meet the objectives of the standard (IASB, 2011).

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of observable inputs and minimizing the use of unobservable inputs. Three widely used valuation techniques are the market approach (uses prices and other relevant information generated by market transactions), the cost approach (reflects the amount that would be required currently to replace the service capacity of an asset) and the income approach (converts future amounts to a single current discounted amount) (IASB, 2011).

What is evident from the history of fair value accounting outlined above is that the evolution of the concept of fair value and its role in financial reporting is undeniable and significant. The acceptance or rejection of it in practice, however, is not as apparent. This will be explored in the next section.

2.3 Resistance to IFRS 13

2.3.1 Motivations to resist fair value accounting

Despite the fact that the evolution of the concept of fair value resulted in fair value accounting becoming embedded into accounting standards and thereby legitimised, fair value accounting cannot be said to have become fully institutionalised. This is because it is not taken for granted by all actors, which would be the case if it had accumulated a high degree of cognitive acceptance (see Section 2.1; Georgiou & Jack, 2011).

Instead, fair value accounting has been criticised by many practitioners due to its inherent complexities creating impracticalities for their organisations (Durocher & Gendron, 2014; Georgiou & Jack, 2011). In addition, practitioners tend to reject fair value accounting on the premise that it does not translate into financial statements which are more representative of commercial phenomena, but instead artificially constructs perceptions of what standard setters refer to as 'economic reality'. This is believed to be the case because even well-intentioned management estimates of fair value are capable of being wrong if the assumptions and predictions, on which those estimates are based, are wrong. This would be exacerbated by middle-ground compromises in the audit process and by manipulation of the subjective nature of the estimation process (Durocher & Gendron, 2014).

Dissidents also stress the extent of volatility characterizing fair value accounting, which is subject to the impulses of unpredictable markets, as highlighted by the global financial crisis. The rationale of these practitioners is that market and economic indicators underlying fair value measurements are continuously changing in such a manner that the financial statements eventually lack predictive power, which, paradoxically, is supposed to be the keystone of fair value accounting (Durocher & Gendron, 2014; Georgiou & Jack, 2011; IASB, 2010a). This results in users being provided with potentially undecipherable financial statements and also opens up the possibility of management manipulation and bias (Power, 2010). In addition, many practitioners demonstrate a high degree of epistemic commitment towards historical cost instead of fair value orientated accounting (Durocher & Gendron, 2014; Georgiou & Jack, 2011). This is likely to be a consequence of these practitioners ascribing stewardship to the root metaphor of accounting (S. Ravenscroft & P. F. Williams, 2009).

Even if one assumes that practitioners have no objection towards fair value accounting, IFRS 13 is distinct since it is not only a progressive development of fair value accounting, but it is also a prescriptive response to the global financial crisis (IASB, 2011). Gendron and Tremblay (2011) examine how regulatory prescriptions and best practice promoting the strengthening of audit committees' work, in the aftermath of the 2001-2002 financial scandals, were received by audit committee members. Their research can be used to examine whether practitioners, that are expected to apply prescriptions developed as a response to a crisis, comply with or resist such prescriptions (Gendron & Tremblay, 2011).

Gendron and Tremblay (2011) argue that prescriptions adopted in the aftermath of crises have limitations since they are interpreted and enacted by complex and unpredictable human beings, often

resulting in gaps existing between the meanings of those prescriptions as interpreted by agents in the field, versus those intended by the creators of the prescriptive response. Additionally, Gendron and Tremblay (2011) acknowledge the fact that prescriptions do not have a rigid impact on human behavior since rationalization can be employed and the agents have some margin of maneuver if significant discretion is left to them as to how the prescriptions are interpreted and implemented. The prescriptions within IFRS 13, relating to clarification on valuation when markets become less active and disclosure requirements for measurement uncertainty, are principles and not rules, as discussed in Section 2.2.2, and therefore allow for a degree of judgment to be employed, which creates space for contestation (Maroun & van Zijl, 2015).

IFRS 13 also represents a change from the fair value accounting requirements that were in place before its introduction in 2011. Prior research undertaken on the topic of cognitive dissonance and resistance to change indicates that people are motivated to resist change because they are biased towards their previous committed course of action, and seek information that confirms these prior beliefs, and resist any information that is in conflict with them. Consequently, the alteration of an individual interpretive scheme is unpredictable, and a complex process that can often surmount to resistance to the alteration and an inclination to maintain any previous position; despite any objective evidence that points to the desirability of the change. This points to the fact that people's judgment of IFRS 13 is unlikely to be independent of their own state of beliefs, and may result in hostility towards the standard (Durocher & Gendron, 2014; Jermias, 2001).

2.3.2 The legitimacy of the IASB and its relevance for resistance to IFRS 13

In addition to concerns about fair value accounting and IFRS 13, concerns with IFRS, in general, are relevant to the discussion of resistance. In this regard, the legitimacy of the IASB requires examination. According to Burlaud and Colasse (2011), to examine the legitimacy of the IASB, three notions of legitimacy can be utilised, being political legitimacy, procedural legitimacy and substantial legitimacy. The source of an organisation's political legitimacy is election; while the source of procedural legitimacy is considered to be in the commitment to procedures intended to guarantee independence and impartiality. Substantial legitimacy has its source in the possession of a recognised knowledge template, or expertise of a technical or scientific nature (Burlaud & Colasse, 2011).

The IASB's procedural legitimacy is contingent on the impartiality of the manner in which members of the Board are chosen, and on the transparency of the standardisation process. An examination of

the composition of the IASB reveals that the majority of its members have gained professional expertise in leading practices and have an Anglo-Saxon accounting culture and a neo-classical economic education (Burlaud & Colasse, 2011). This, coupled with the fact that, there has been a professionalization of accounting standard setters which identifies that there has been a development of an independent professional and expert regulatory identity within the members of the IASB (Power, 2010), results in standardisation being concentrated in the hands of private technical experts who share the same cognitive space (Burlaud & Colasse, 2011). The growth of fair value accounting in accounting standards can be seen as a resultant of this narrowly constructed composition of the Board and of the professionalization of that member base.

In this way, accounting standards have been developed in spite of standard setters having no substantive access to alternative schools of thought, such as stewardship and accountability, and little-detailed knowledge about the information needs of the actual users of financial statements. Very few users of financial statements end up participating in the standard setting process, despite the rhetoric centred on public interest (Durocher and Gendron, 2011) with the result that various governments, employee representatives, and companies end up having no direct interest in the standard setting process (Burlaud & Colasse, 2011).

Furthermore, the IASB is known to have often undermined due processes, as evidenced during the period after the global financial crisis when the IASC Foundation Trustees waived the IASB's due process procedures, including appropriate comment periods, in order to rush through to an amendment to IAS 39 and IFRS 7 (IASB, 2003, 2005). The Co-chair of the IASB's Financial Crisis Advisory Group later even admitted that the lines were crossed in this instance (Bengtsson, 2011).

One can, therefore, be concerned about the procedural legitimacy of the IASB because the independence of its members does not result in it being an independent body; and its loosely established due processes do not result in the inclusion of all the stakeholders in the standard-setting decision (Burlaud & Colasse, 2011)[5].

[5] It is noted that the research by Burlaud and Colasse (2011) has been rebutted by Danjou and Walton (2012) who contradict claims made by the researchers regarding the IASB's lack of legitimacy. Danjou and Walton (2012) do this by highlighting the support received by the IASB from leaders of the world's major economies (G20), and by the European Commission and European Parliament. Danjou and Walton (2012) criticise the work of Burlaud and Colasse by claiming that their research is not supported by mainstream literature, and that there is no academic support for their postulate, that there are only three types of legitimacy. The possibility of the work of Burlaud and Colasse (2011) being anti-IASB rhetoric has been considered in the analysis of this study (Danjou & Walton, 2012). The specific ideas brought up by Burlaud and Colasse (2011) were not used to prompt discussion points but rather were used to analyse comments made by interviewees where links could be drawn back to their research (Section 4.2.8).

Even if the IASB is accepted to be a legitimate body, disillusionment and consequent resistance with its standards remains a possibility; especially if relevant constituents do not perceive IFRS to represent rational, technical accounting developments that result in relevant and faithfully representative information being reported (Maroun & van Zijl, 2015). Such cynicism has been increasingly apparent in the commentary to discussion papers and exposure drafts issued by the IASB. Among the criticism, the view that standards are not appropriately incorporating the concept of business model has been recurring (EFRAG, 2013; ICAEW, 2010).

Internationally, there has been growing discussion on the topic of the role of the business model in financial reporting. The term appeared in IFRS, explicitly, for the first time in 2009 in IFRS 9 Financial Instruments, however, it has been implicitly incorporated in many other standards issued before this (IASB, 2010b); such as IAS 2 Inventories and IAS 16 Property, Plant and Equipment, under which the use of the assets defines whether or not they are considered as inventory or property, plant and equipment; and in IAS 40 Investment property, which differentiates between real estate assets depending on the economic purpose pursued in holding the asset (IASB, 2001a, 2001b, 2001d). The concern is that the term has not been featured consistently, and has not been included or clarified in the Framework, in order to facilitate a conceptual inclusion of the term into IFRS (EFRAG, ANC, & FRC, 2013).

Academic literature describes the term business model as an entity's activities, its asset configuration, and its customers, products and services (EFRAG et al., 2013). Therefore, at a strategic level, it designates the business into what sector it operates in and describes how the business makes money (ICAEW, 2010; Nielsen, Fox, & Roslender, 2015).

The EFRAG, along with other European standard setting bodies, proposed a definition of business model in a financial reporting context. The definition, which is grounded in academic literature, focuses on the value creation process of a business, in other words, how the business generates cash flows. In the case of non-financial institutions, it represents the value creation process, from input to output. The definition links cash flow generation and conversion and value creation together to formulate meaning, because cash flows, and their timing and synchronization with related risks, is seen to be a fundamental feature of value (EFRAG et al., 2013).

This definition results in a number of attributes of a business model, differentiating it from other business models; such as capital intensity, risks related to primary activities, the manner of conversion of outputs into cash flows, the length of the activity cycle, among others (EFRAG et al., 2013). This implies that the name of the industry serves merely as a shortcut for the description of the business model; and that businesses that address the same customer need, may very well have different business models[6] (Beattie & Smith, 2013; EFRAG et al., 2013; Nielsen et al., 2015).

Summary

Motivations to resist, whether they are related to fair value accounting, IFRS 13, or IFRS in general or whether they are based on conceptual, ideological or practical grounds, expose the application of fair value accounting to logics of resistance. In cases where fair value accounting is not entrenched, or taken-for-granted by an organisation, resistance is likely to be characterised by its rejection of fair value in place of alternate bases (Georgiou & Jack, 2011), where the accounting standards permit this election. In cases where fair value accounting has, seemingly, been institutionalised into the practices of an organisation (Meyer & Rowan, 1977), the application of the above criticism may be evident through the decoupling process, whereby fair value measurement principles are superficially adhered to, so that an image of outward compliance with fair value accounting and practical considerations are simultaneously achieved (Tilcsik, 2010). This is possible because a considerable amount of discretion is afforded in the application of fair value accounting, resulting in total conformance not being definite (Carruthers, 1995; Gendron & Tremblay, 2011; IASB, 2011).

Therefore, to conclude, resistance includes disengagement as well as superficial endorsement (Durocher & Gendron, 2011), and the mechanisms employed to undertake such resistance in the application of IFRS 13, form the scope of the investigation in this study.

[6] According to the EFRAG, the alignment of accounting treatment with the business model of the entity will bring about a more faithful representation of economic reality. It will result in transactions, and consequent changes in value, that are more relevant to the financial performance and position of the entity, being recognised and presented. The IASB's current approach to the measurement of transactions implicitly makes reference to the business model, with historical cost reflecting a certain type of business model and fair value reflecting another type of business model. However, with the introduction of a definition and conceptual clarification of the concept of business model, measurement and disclosure of financial performance and position would likely achieve new levels of relevance and faithful representation (EFRAG et al., 2013).

3 Method

3.1 Research methodology

The ontological assumption made in this study is that reality is a social construction (Ryan et al., 2002). Therefore, a qualitative and interpretative approach is more suitable than a quantitative one. This is because a social constructivist view of reality interprets accounting institutions, such as the IASB, and their activities, such as the development of IFRS 13, to be consequences of human interventions whose perceptions of truth and reality change over time. The result is accounting information and its treatment, not being adequately interpretable through the deterministic or objective lens of a positivist framework (Coetsee, 2011; Maroun, 2012a).

Therefore, mainstream accounting research, which embodies a positivist approach, is rejected as a suitable choice for this study, since such research premises that only one truth exists in physical reality and that this truth exists independently from the actions of humans (Baker & Bettner, 1997; Coetsee, 2011). This approach to this research would not be appropriate, since logics of resistance to IFRS 13, a consequence of individual sense-making (Ryan et al., 2002) is not a naturally occurring phenomenon that is quantifiable or objectively determinable, and adopting a paradigm which assumes such, would limit the scope of the data collection and analysis of this study (Coetsee, 2011). Also, critical accounting research is rejected as the suitable approach in this study, since the truth in this study is aimed to be explored, and not critiqued (Coetsee, 2011; Ryan et al., 2002).

An interpretative framework, which has a qualitative foundation, is appropriate since it allows for the assessment of the reasoning behind phenomena, such as resistance to IFRS 13, and in doing so, seeks to understand accounting as a social practice (Coetsee, 2011; Ryan et al., 2002). These properties of interpretative research are required in producing an analysis that is representative of its explanation of the social actor that may resist IFRS 13. Incorporating the perceptions and feelings of people, through direct engagement with them (Coetsee, 2011; Parker, 2008), grounds the research in social context, thereby limiting the effects of the views of the researcher contaminating the research (Ryan et al., 2002).

3.2 Research design

The research uses semi-structured interviews as the data collection method. Interviews were chosen because data generated from interviews that have been adequately designed and that include

appropriately chosen interviewees have the potential to generate a range of insights, comprising greater detail than that extractable by other means (Creswell & Clark, 2007; Rowley, 2012).

Semi-structured interviews were conducted because, unlike structured interviews, a degree of flexibility was afforded to the interview process which enabled more comprehensive and relevant data to be collected. Conversely, such a format was structured enough to ensure consistency, with regards to the addressing of main themes, which enabled the generation of a reasonable and rational analysis (Leedy & Ormrod, 2005; Rowley, 2012).

The interview agenda was derived from the literature discussed above (Section 2), which sought to answer the research question (see Appendix I) (Leedy & Ormrod, 2005). Each question had two to four sub-questions, or prompts, which were used if the main question was not sufficiently addressed by the interviewee (Creswell & Clark, 2007; Leedy & Ormrod, 2005; Rowley, 2012).

Interviews lasted between sixty and ninety minutes. This allowed sufficient time to thoroughly address the interview agenda and to explore all aspects of the research question (Rowley, 2012). All agenda questions were posed to all interviewees; however, the order of questions differed in line with the natural progression of the interview to allow for the interviewee to provide detailed accounts. The interview agenda was made available to the interviewees before the interview took place and the interviewees were made aware that they may be requested to explain certain comments in different words to address 'script coherent expressions', misunderstandings and ambiguity (Leedy & Ormrod, 2005; Maroun & van Zijl, 2015). Furthermore, the transcript of the interview was made available to the respective interviewee, upon their request (Leedy & Ormrod, 2005; Rowley, 2012).

In order to ensure that all interviewees understood the questions, there was an on-going careful analysis of any jargon utilised in the questions, so that terms that the interviewees were likely not to be familiar with, were substituted. The interview questions were scrutinised to confirm that questions do not have implicit assumptions, are disaggregated appropriately, do not prompt yes or no responses, and are not too vague or invasive (Rowley, 2012).

Two preliminary pilot interviews were conducted with colleagues to ensure that the questions are understandable, do not lead interviewees and progress logically; and so that any apparent changes required to the questions, and the flow of agenda, could be made before the final interviews are

conducted (Rowley, 2012). These rigorous processes were conducted in order to enhance the accuracy and validity of the results from the interviews.

3.3 Selection of interviewees

Purposive sampling was used in selecting interviewees, which involved the selection of respondents on the basis of the groups that the research addresses (Rowley, 2012; Silverman, 2013). Furthermore, because interpretative knowledge is dispersed and distributed, the selection of interviewees targeted different places and different people in order to understand the underlying phenomenon in the research (Coetsee, 2011; Henning, Van Rensburg, & Smit, 2004). Interviews were held with ten respondents in Johannesburg, in September and October 2015. These interviews were conducted with preparers of financial statements, "Big 4" technical experts and audit partners, standard setters and academics (see Appendix II). It is expected that this target group was sufficiently wide to provide a comprehensive analysis of motivations and logics of resistance to IFRS 13 while still being representative of the group that would have typical perspectives of the subject matter in a South African context (Coetsee, 2011; Leedy & Ormrod, 2005).

Where a particular group of respondents had a specific response to a line of questioning, an attempt was made to highlight the variability in Section 4. However, due to the small sample size and risk of generalising (see Section 1.5), apart from highlighting the variability, focus was not placed on analysing the variability or discussing the divergences. This approach was also taken because all of the respondents are professional accountants, and, therefore, the ability to solely attribute a finding to a specific group was difficult since the roles of professional accountants are often overlapping (Maroun & van Zijl, 2015).

3.4 Data collection

Each interviewee was approached via e-mail to participate in the study. The e-mail indicated who the researcher is, explained the nature of the research as well as the fact that IFRS 13 will be under scrutiny, indicated the time the interview is expected to take, requested permission to record the interview, assured the potential interviewee of confidentiality and provided contact details of the researcher as well as preferred availabilities. The interview agenda was attached in the e-mail so that the potential interviewee had sufficient understanding of the purpose of the research beforehand (Leedy & Ormrod, 2005; Rowley, 2012). Once a potential interviewee accepted the request for the interview and indicated a suitable date and time, an appropriate location was determined, which was

communicated to the interviewee (Leedy & Ormrod, 2005). In one instance, a mutual location was unobtainable, and, therefore, a telephonic interview was conducted.

To begin, a rapport was developed with the interviewee (Leedy & Ormrod, 2005). Once this had been established, the interviewer requested permission to record the interview, which enabled the development of more accurate transcripts and allowed the interview to be conducted at a comfortable pace without the interviewer being pre-occupied in recording the conversation (Rowley, 2012). The interviewee was reminded of the confidentiality of the responses and that he or she may terminate the interview at any stage should they wish. After this, the researcher indicated the purpose and nature of the research being conducted to the interviewee.

The key themes of the research topic were then introduced via the research agenda questions. Careful attention was placed to not pre-empt responses. The interviewer also conducted the interview with restraint, so as to not provide reactions to answers provided by the interviewer, apart from those that guide the progression of the interview (Leedy & Ormrod, 2005). After the interview, the contents of the interview were transcribed and kept secure using passwords to ensure confidentiality. No other persons were allowed access to either the interviewee list, interviewee records or transcripts (Rowley, 2012).

3.5 Data analysis

Data analysis was conducted using a data analysis spiral which includes four steps (Leedy & Ormrod, 2005; Rowley, 2012). The first step involved the organising of data which was carried out by entering transcripts into a database, with an appropriate structure, being Microsoft Word. Step two involved familiarisation with the data collected from interviewees. This involves reviewing the responses and adding detailed comments.

Step three involved identification of general themes and subthemes from the responses, by comparing and contrasting the perceptions of respondents (Leedy & Ormrod, 2005; Rowley, 2012). The themes identified were used to group the contents of transcribed interviews. The themes included, inter alia, (1) purpose and users, (2) centralisation/decentralisation, (3) disclosure, (4) compliance culture, (5) cost-benefit analysis, (6) disillusionment with the IASB, (7) intensity of level 3, (8) volatility, (9) subjectivity (10) cash flows, (11) role of auditors, (12) materiality and (13) earnings management. Once the process of identifying themes was complete, the themes were sub-grouped based on the

three research questions. Careful attention was made to allocate overlapping themes to each of the research questions that were being addressed.

This process of identifying the themes was rigorous; and specific attention was made to identify contradicting information to limit the effects of researcher's bias throughout this process (Leedy & Ormrod, 2005). The themes were not predefined but rather, were developed interpretively, in conjunction with the analysis of prior literature relating to institutional theory, fair value accounting, and resistance to fair value accounting (Section 2) (Maroun & van Zijl, 2015).

The last step involved the synthesis of the themes which was conducted until a sense of saturation was obtained, which was the achieved when no additional themes were discovered upon subsequent readings of the transcriptions. Themes that entailed less detailed findings were aggregated with other themes if other themes were relevant to the findings noted. The themes were subsequently converted into a summary table, which was the basis of the finding discussed in Section 4. This synthesis of themes was coupled with re-reviewing of the existing literature as well as additional literature that could be used to explore the identified themes (O'Dwyer, Owen, & Unerman, 2011).

3.6 Validity

With qualitative research, the notion of validity can be replaced with contextual validity which indicates that the evidence drawn is credible. This was achieved by interviewing multiple persons so as to determine whether responses are comparable; by assessing the credibility of interviewees prior to requesting their participation in the research; and by respondent validation which involved the researcher taking the conclusions made back to the interviewees to confirm the researcher's interpretations (Leedy & Ormrod, 2005; Ryan et al., 2002). Contextual validity was also achieved by grounding the study in prior literature.

Finally, validity in this study will be demonstrated through the establishment of a conceptual framework, which will provide coherence to the research (see Figure 2). This conceptual framework will explain, in a graphical format in the form of a mind map, the main themes studied and the relationship between them, as well as how these themes together contribute to the conclusion. In this way, this conceptual framework will link the literature review, the research methodology, findings and the conclusion together (Baker & Bettner, 1997; Coetsee, 2011).

4 Findings and analysis

In this section, an analysis of the interviews will be conducted. Section 4.1 identifies whether organisations apply fair value accounting to their financial statements (Section 1.2, Sub-question A). This is examined using institutional theory, as discussed in 2.1; and the fair value accounting literature explored, in Section 2.2. Section 4.2 uses the literature in Section 2.3 along with views obtained from respondents to discuss the identified motivations to resist IFRS 13 (Section 1.2, Sub-question B). Finally, Section 4.3 outlines the mechanisms that are being employed to resist application of IFRS 13, using the literature on decoupling discussed in Section 2.1.2 (Section 1.2, Sub-question C).

In this section of the study, the respondents' discussion relating to the application of fair value accounting refers both to the requirement to use fair value, which is contained in the individual IFRSs, and to the technique for determining fair value, which is contained in IFRS 13. As IFRS 13 does not prescribe when to use fair value, resistance to the requirement to use fair value cannot be said to have been brought about by the introduction of IFRS 13. However, resistance to using fair value would encompass measurement and disclosure thereof. Therefore, such resistance is relevant to IFRS 13.

Resistance to the techniques for determining fair value can be said to have been brought about by the introduction of the new standard as these technicalities were specified with the introduction of IFRS 13.

4.1 Application of fair value accounting in financial statements

Respondents unanimously acknowledged that IFRS 13 was a necessary step in the evolution of fair value accounting. This is because prior to the introduction of it, there was an agreed lack of consensus with regards to the definition of fair value, as well as fair value measurement principles (R1, R2, R3, R4, R5, R6, R7, R8, R9 and R10).

> 'I think [the IASB] had to [introduce IFRS 13] because the [different] standards were defining [fair value] slightly differently and I think there was a lot of debate on what fair value actually means because of that whole debate on the entry value and the exit value[7]. Should it be value in use to the firm? What do you do when shares are thinly traded? There was a whole lot of debate about how you actually measure that fair value and I think that created a lot of non-

[7] The entry price is the price paid to acquire an asset or received to assume a liability in an exchange transaction; and the exit price is the price that would be received to sell an asset or paid to transfer a liability. Fair value, according to IFRS 13, is an exit price.

comparability in the way fair value was measured. And I think also because there wasn't guidance' (R10).

The lack of clarity was severe, to the extent that preparers used the confusion as 'an out' (R10) to not apply fair value accounting, and rather 'hid under the smoke screen that we don't know what fair value [is]' (R10).

The fact that a lack of guidance resulted in fair value principles not being consistently applied was acknowledged by the IASB in its Basis for Conclusions on IFRS 15 Revenue from Contracts with Customers. They have stated that previous practices by entities with regards to the measurement of revenue were not in line with IAS 18 Revenue, which required revenue to be measured at the fair value of the consideration received/receivable. Instead revenue was being measured as the amount to which the entity expected to be entitled to. The customer consideration model brought into IFRS 15 can be seen to be a consequence of inconsistencies in application of IAS 18 (IASB, 2014)

In this sense, IFRS 13 brought about a 'standardisation of fair value' (R1, R2, R6), and this was seen to be useful for standard-setters, preparers, auditors and users alike.

Despite the usefulness of IFRS 13, its application in financial statements cannot be assumed. Based on the analysis of the interviews conducted, it was determined that the application of fair value accounting in financial statements of organisations, can be characterised by both conformance and resistance, as will be discussed in the following sections.

4.1.1 Purpose of financial statements

Application of fair value accounting can be said to be adequate if it meets its purpose. Respondents unanimously identified the purpose of financial statements to be to provide useful information which is required for 'economic decision-making' (R1), to users of financial statements. This decision-making necessitates users to determine the value in an organization (R2) and to make judgments about the current position of the organisation so that they can forecast what the future position will be (R3, R4, R5 and R6).

The main users of financial statements were identified by respondents to be 'primarily the investors and lenders' (R10) and, therefore, essentially the 'providers of financial capital' (R5). Some respondents did mention some other users such as employees (R4), customers (R8), taxation

authorities (R8) and trade unions (R10); however, the majority of these user groups are seen to be 'the man on the ground' (R3), who has limited accounting knowledge (R3, R4 and R8), and thus a reduced ability to extract useful information. Furthermore, it was implied that if the information needs of the investor, who bears the most financial risk, are met, then all the information needs of all user groups would be met (R10); a position which corresponds to the view of the IASB (2010a).

Essentially, the respondents view the purpose of preparing financial statements to be to communicate information to the providers of financial capital (existing or potential), that will assist them in determining if they would like to provide capital to the organisation, or if they already have, if they would like to maintain the investment or divest. This indicates that a key role of financial statements is seen to be to serve as a tool for funding. The implication of this is organisations wanting financial statements to provide them with legitimacy, and furthermore, to make them appear attractive; so that they can achieve continuity and growth.

> 'I suppose it would depend on what you need out of those financials. If you know that someone is going to use them for something, like funding, then maybe you might be driven to paint a more favourable picture' (R4).

Alternatively, the response provided by respondents regarding the purpose can be seen as being derived from IFRS. This is because the purpose described by them was consistent with that in the Framework (IASB, 2010a). Some respondents even identified this fact: that their response was based on the 'IFRS definition' (R2) and on 'the emphasis in the Conceptual Framework' (R10). In this sense, the respondent's acceptance of financial statements can be seen as legalistic, and is evidence of coercive isomorphic pressures at play, which stem from the requirement in the Act to prepare IFRS-compliant financial statements, as discussed in Section 2.1.3.

The legalistic acceptance of financial statements was further highlighted by the fact that most respondents did not explicitly state accountability to be the main purpose of financial statements but when asked about their assessment of certain IFRS principles, their epistemic commitment with accountability being the root metaphor of accounting, was evidenced (Durocher & Gendron, 2014; S. Ravenscroft & P. Williams, 2009). This contradiction of explicit statement and inherent understanding will be discussed in greater detail in Section 4.2.4. The implication of the inconsistency, however, is that there is a gap between respondent's understanding of accounting and

their knowledge of IFRS compliant financial statements. This gap can be attributed to normative isomorphic pressures, which stem from the knowledge transferred during formal education which establishes decision-usefulness as the main purpose of accounting, as opposed to accountability (DiMaggio & Powell, 1983).

Nonetheless, whether it is because financial statements serve as a funding tool or because it is a legal requirement to prepare them, IFRS-compliant financial statements can be seen as a prerequisite for survival in the current business environment. The result of this is a culture of compliance with IFRS, and the risk of this is that:

> '[Financial statements] become something that is required for external reporting, and not as part of the management of the business. And now when [you] get into that mode when information is created only for external reporting purposes to tick the box, nobody knows if it's right or wrong. And [that's] a waste of time' (R1).

In other words, when compliance is solely undertaken for the sake of compliance as opposed to the achievement of an objective, application is likely to be characterised by a ceremonious 'tick the box' mentality. This is explored in more detail in Section 4.1.2.

4.1.2 A compliance culture

Many respondents identified with the 'tick the box' mentality. In doing so, they ascribed to a mentality that considers compliance to be essential but not because it is the logical and rational action but because it is something that has to be done to survive (R1, R4, R5 and R6). Respondents also indicated that this 'tick the box' attitude with IFRS is heightened when the organisation is regulated more stringently (R5, R6 and R9), which reaffirms the idea of compliance with IFRS being linked to the need to survive in the business environment, and not to it being a constructive and useful business tool.

Such a culture creates the opportunity for financial statements to be prepared:

> '…as a routine because IFRS says you need to do this so people just do it. It's something that is a check box and that has to be done and I don't think people want to improve on it or do better. They think that they must just get the job done and move on' (R6).

The issue with applying IFRS as a routine is that organisations may be applying the requirements superficially without actively thinking about the end user, and may be doing the bare minimum in terms of substantive application of IFRS principles to appear legitimate. This is because organisations view the preparation of financial statements as being 'all about [them] and how ultimately [they] will be judged' (R4), which may not in substance, result in the most relevant or faithful representation of the economic reality that is being reported to users.

Based on this, it can be said that organisations will likely be motivated to resist IFRS principles that are not serving their needs as an organisation to retain or attract funding; either because the IFRS principle results in unfavourable aspects of their business being revealed, or because the principle does not have an impact on the way they will be ultimately judged. However, the need to survive, which entails the preservation of legitimacy and reputation, means that resistance is unlikely to be characterized by outright non-compliance but rather by superficial adherence, which does not expose the organisation's resistance, and maintains their outward legitimacy.

Some respondents identified the fact that 'financial statements do not always have sufficient information to give an understanding of what's happening in the business' (R4), and thus they 'don't easily give enough information to be able to say that this is wrong' (R1). This is despite the fact that the amount of disclosure that is required by IFRS is increasing to the point of financial statements becoming an 'information overload' (R5); implying that the required disclosures are either still insufficient or are not useful in informing an understanding of the organization, and are, therefore, not value-adding (R2) (discussed in Section 4.2.3). This limitation of financial statements means that avoidance of certain IFRS principles could go unnoticed, enabling the perpetuation of the superficiality presented.

4.1.3 Fair value accounting

While a culture of compliance was pervasively identified in the responses received, many of the respondents did not solely attribute their preparation of financial statements to a mere 'tick the box' activity but understood that investors require information to make an assessment of the financial position and performance of the business.

When questioned about the role fair value accounting in this process, many respondents revealed a general disinclination with fair value. Some respondents did see the place of fair value in financial

statements as a 'more realistic number' (R7), the benefits of which were acknowledged to be 'improved capital efficiency and ultimately lower cost of capital' (R1). Its relevance is seen to be in the fact that it provides a current position:

> '[Fair value] is more current. It's based on current position and situation and as a current investor, one of my decisions is whether I hold or sell or whether I buy some more, and as a potential investor then I am in the position of; "Should I buy into this company?" So what I am interested in is what alternatives are available to me today. It's a comparison with current financial information always' (R1).

The majority of respondents, however, were not mindful of the end user when assessing the usefulness of fair value. The use of fair value was identified as being merely an indicator of a selling price when such information is required by the organisation (R3); and also, a mechanism to 'bolster [the] balance sheet to obtain funding' (R2), when required.

> 'The question we always ask is why did you [fair value that asset]? And you'll find it's probably to borrow money or they need to pump up their balance sheet to get some more money from the bank. It's usually a once off. They'll go and fair value their buildings and the next day they go to the bank and say we need more money look at our balance sheet, it's healthy. So that's usually the motivation behind that' (R2).

Considering that respondents identified the purpose of financial statements to be to provide useful information, the lack of identification of the role of fair value accounting in providing useful information, indicates a dis-connection with the academic association of the information metaphor with fair value accounting, and the views in practice (S. Ravenscroft & P. Williams, 2009).

Furthermore, the lack of identification of the benefits of fair value can be attributed to the fact that organisations are not recognising the role of fair value in the internal management function of their business (R3, R4, R5, R6 and R8) because they view 'financial reporting as outside of their decision-making processes' (R10).

4.1.4 Application challenges

A reason identified by respondents for the lack of integration of the fair value function into the management of the business is the challenges that are encountered in the application of IFRS 13. One

respondent highlighted issues relating to the centralisation of the fair value function. In this organisation, the parent company, located in a different country to its subsidiaries, determined several inputs such as 'discount rates, exchange rates, pricing of all [their] different products' (R4); and this information was applied by all companies in the group. The respondent indicated that the issue with this is that the assumptions used to determine fair value are often inaccurate from the market participant's perspective of the specific company in the group, which impacts the separate financial statements of that company.

> 'So we sit here and we're like we're not even achieving this. How do you think we will achieve it next year? What the [hell] were you smoking when you came up with these rates? But we still have to use them. So that's our process. We get stuff from the parent company' (R4).

Conversely, other respondents indicated that the issue with fair value measurement at their organisation was that the process was too decentralised. The lack of a holistic approach was seen to create inconsistencies at the organisation for the treatment of the same assumptions (R5 and R6).

> 'There's no-one that looks at the calculation of fair values across the banks, holistically. So methodology could be inconsistent for similar instruments, across the business units and I think this is definitely a pre-IFRS 13 issue because IFRS 13 has brought about [the idea of there being] one source and [that] you should just go to that one source' (R5).

The above issues identified in the fair value measurement process can be seen to have been caused by systems that were in place before IFRS 13 came in, that have not yet been replaced. These outdated systems, whether they are too centralised or decentralised and, as a result, cause inconsistencies, can be seen to be the reason for incorrect fair values being currently reported in financial statements. This indicates that even before IFRS 13 principles can be sceptically contemplated, the 'pre-IFRS 13' systems in place result in fair value application being imprecise, which points to fair value accounting being a 'work in progress' (R5).

While certain respondents indicated that there is a movement in place to update these systems to bring them in line with IFRS 13 (R5, R6), this was not the overall view. Most respondents were of the view that as long as their systems provide them with the information they require to evidence that they

have complied with IFRS 13, they are satisfied (R4). The entrenchment of the old system in these organisations and a reluctance to update the system to bring it in line with the requirements of IFRS 13 was evidence of the resistant attitude to change, as discussed in Section 2.3 and Section 4.2.1.

Organisations that were less resistant to change the fair value system were organisations from industries where there is a greater level of regulation, specifically organisations in the financial services industry. The organisations in this industry were determined, by respondents, to be more likely to ensure that the systems they have in place are accurately reporting IFRS principles, due to the intensified culture of compliance and change that they have to instil to survive (R5 and R6), as discussed in Section 4.1.2.

> 'I think banks are also quite progressive. They are forced to be because they have very onerous regulatory reporting requirements so the culture is one of change. I've never experienced resistance to fair value here. It's well received, it's acknowledged as being constructive financial reporting. I think if you went to a corporate, and a normal retailer, I don't think they would be as open to fair value' (R5).

Summary

The above discussion has indicated that respondents attribute the purpose of preparing financial statements to providing useful information to investors; highlighting the ability of the financial statements to serve as a funding tool. This ability, coupled with coercive isomorphic pressures driven by the requirement in the Act to comply with IFRS, points to the preparation of IFRS compliant financial statements being a prerequisite for survival in the current business environment. The result of this is the application of fair value accounting being certain. However, the 'tick the box' mentality that ensues from such a culture of compliance, results in the application being ceremonious rather than substantive.

The fact that there is a general disinclination with fair value information, and that there are certain application challenges due to the entrenchment of old systems and a reluctance to implement updated processes, means that the application of fair value accounting in the financial statements of organisations is likely to be superficial. The heightened regulation in the financial services industry means that they are more progressive in their application; however, the underlying 'tick the box'

mentality was pervasive, suggesting that even organisations in this industry are not immune to the superficiality of fair value accounting application.

4.2 Motivations for resistance

In spite of the superficiality, compliance, as discussed above, was evident from the views obtained from respondents. However, in addition to this, logics of resistance to fair value accounting were also evident. The motivation for this resistance either stemmed from frustrations which relate to IFRS and financial reporting in general, or from technical-related issues with fair value accounting. Certain motivations were experienced by all respondents while other motivations were specifically raised by specific groups of respondents. The motivations of resistance identified by respondents will be explored in greater detail in the sections below.

4.2.1 Resistance to change

A general motivation to resist fair value accounting, and more specifically, the fair value as defined in IFRS 13, is based on the resistant attitude to change (see Section 2.3.1). Respondents indicated that generally when new standards come in, there is a motion to resist them, especially when the change does not conform to prior beliefs (R1, R2, R3, R4, R5 and R9). These beliefs can be that of the preparer's or of the primary users'. The resistance appears to stem from the 'tendency to regress to what [people] know best' (R1).

> 'A clear example is IFRS 9 with the transition. Guys don't know what they want to do. So you can restate your IFRS 9 numbers or you can keep your [IAS] 39 and [apply] IFRS 9 going forward. Now the big thing is that analysts are used to IAS 39 numbers. Now, all of a sudden there's [IFRS] 9. A couple of the entities, and we're talking globally now, are looking and saying perhaps we need to provide our IAS 39 numbers in parallel to our IFRS 9 numbers for the next five years so that analysts have still got the [IAS] 39 numbers and they can do their old ratios etc.; and then they've got five years to learn what the new numbers are, rather than try and do this change' (R9).

Several respondents indicated that with regards to IFRS 13, the resistance to change is specifically felt amongst valuators, as the intricacies of IFRS 13 are mainly within their ambit of work (R2 and R9), while most preparers and auditors are largely unaffected by them, or unaware of them (R2, R4, R7 and R8).

> '[Valuators] did not agree with the fundamentals. They didn't want to agree with certain assumptions that have got to go into this thing. It's old oomies[8] sitting there saying: "I've been valuating properties for thirty years and you want to tell me that I've got to value it like this." There was a huge amount of resistance to it' (R9).

A major aspect of change that makes it unappealing to many is that effort is required to understand changes, and more so to implement them (R1 and R2). Consistent with the findings of Durocher and Gendron (2014) and Jermias (2001), there is a general reluctance to depart from the status quo:

> 'Companies are generally not very good at change. There's a lot of complaining and a lot of resistance because new standards often make them say: "Why do we have to do this?"'(R2).

As was found by Gendron and Tremblay (2011), resistance to accepting new prescriptions is often justified by the argument that the cost of change exceeds the benefits.

4.2.2 Cost-benefit

As such, unjustified effort was a key logic of resistance identified by the majority of respondents, to many accounting developments, and specifically fair value accounting. Fair value accounting was acknowledged by almost all respondents to be an expensive exercise, as often the function requires external valuators, specifically when observable inputs are not available in respect of the valuation (R1, R2, R3, R4, R7 and R8).

> 'You don't want to go through a lot of effort to get to something [that isn't worth that effort]. There's cost involved [in performing a valuation]. You need to employ very bright people. And you need to get some experts to still do it. Then the auditors come and the auditors get experts as well…Fair valuation's not always worth it [referring to the consulting and other related fees]' (R4).

The respondents who considered fair value accounting to be an unjustified effort were representing organisations whose business models entail primary activities where inputs are transformed to create new assets or services as outputs, and therefore, for these organisations fair valuing was seen to be a task that requires the organisation to deviate their attention from the value-adding activities, for no

[8] 'Oomie' is a South African colloquial reference to an elder relative. In the context of the discussion, the respondent appears to be referring to a valuation veteran.

valid reason, besides external reporting (R2, R3, R4, R8). The relevance of resistance and the business model of an organisation will be discussed in greater detail in Section 4.2.7.

> 'Things like this additional calculation just irritate the people that have to pay for it to be done because it makes no difference in their lives and they can't see what the point of it is. And nobody explains what the point is' (R1).

> 'We're not an equipment based company. We're not a manufacturer that has a large factory and a large chunk of assets that you [use] to produce something to sell. We're mainly a human capital, intellectual capital based company so we've got advisory and asset managers who earn fee income. Our PPE[9] is not even one percent of our total asset value so that's mainly the reason for [not fair valuing PPE]. Going through the effort to revalue our PPE on an annual basis, versus the benefit is limited' (R7).

The time investment required on fair valuing was seen to be especially an issue, considering the tight reporting deadlines which mainly listed organisations have to adhere to and private organisations want to strive for (R3, R5 and R8).

Even in industries with organisations that have business models that are compatible with fair value accounting (see Section 4.2.7), the concern communicated was that replacing fair value systems, which is not straightforward, can be a redundant task, considering the rapid rate of accounting updates. In this sense, the long-term cost-benefit, independent of the usefulness of fair value information to the business, was raised as a concern (R5 and R6).

> 'We've gone through a tender process. So we've identified our preferred supplier who will come and assist us in determining what would be the correct way of doing this. So it's a slow process, but we're slowly engaging to get it done. …There is a concern about the risk around it, like a system that's ageing, how can we keep up-to-date' (R6)?

While the cost-benefit argument was common, from a legalistic point of view, it cannot be considered as valid reasoning to avoid accounting treatment because:

[9] Property, plant and equipment

> ‘Cost-benefit is part of the Conceptual Framework but the primary use of the Framework is to guide the standard setters. So standard setters should be making the decision about cost benefit because a preparer of financial statements is not in a neutral position to make a judgement about cost benefit because they feel they bear all the costs of having to do the additional work’ (R1).

The majority of respondents appeared to be unaware of this and gave the impression that the cost-benefit argument permits simplification of accounting treatment.

It was noted, that the respondents interviewed had experience primarily with companies with public accountability. The IASB has issued IFRS for Small and Medium-sized entities (SMEs) in 2007, which reduces requirements of full IFRS for companies with no public accountability, where the costs of preparation are significantly different (IASB, 2009). While the cost-benefit argument might not be as prevalent in SMEs, as requirements for these entities have been scaled down, the argument remains a widespread one for entities who cannot apply these standards. This is because, as discussed by respondents, even among entities with public accountability, the needs of users are varied, and certain accounting requirements may not hold relevance to such needs.[10]

4.2.3 Disclosure

Respondents had very conflicting views with regards to the disclosure required by IFRS 13, and often respondents contradicted themselves on their opinion of the disclosure. Initially, the disclosure was recognised by several respondents to have a purpose and place in informing users and providing them with supplementary information to enhance their understanding of the quantitative information in the financial statements, especially when that quantitative information is subject to management estimates and volatility (R2, R3, R5, R6, R7 and R10).

> ‘I like the disclosure because to me the disclosure is even more useful than the actual fair value number itself so I think if the users understand the basis for the fair value, then they’ll be able to make any adjustments that they need to make; whereas before, it was very difficult to unpack what was going on’ (R10).

[10] This highlights that the notion of standardised and homogenous accounting treatment may be flawed. The role of business model in financial reporting is discussed in Section 2.3.2 and in Section 4.2.7.

Despite this theoretical appreciation of the purpose of disclosure, it was also seen to be an IFRS requirement that practically does not impact the way organisations are judged and, as such, was ultimately seen to be a waste of time and effort.

> 'I think the main thing is around the disclosure. There's still a lot of resistance to that. Why do we have to do this? This is a waste of time' (R2).

This is because, the nature of the disclosure is seen to be 'generic and boilerplate' (R6), and therefore, is not even seen to be worth the effort of the user, who often does not even comprehend the intricacies of it.

> 'No-one cares. I did sixteen pages [of disclosure] on financial instruments every year and I don't think anyone understands it. And I know that because in odd years, I've made mistakes but no-one picked [up on it]. No-one noticed and it was terrifically wrong but clearly everyone switches off. I'm all for disclosure being great but I don't think it alleviates problems' (R8).

Because of this, several respondents indicated disengagement with disclosure and an emphasis on the numeric valuation instead, for reasons that were reflective of the cost-benefit argument, as discussed in Section 4.2.2.

> 'We do fair value some items. But the disclosure's not always there. We'll disclose only as far as the fair values. In terms of giving all the details, oh [hell], it's going to be a nightmare…The value is correct. I'm comfortable that the value is correct and a reflection of what it was' (R4).

Disengagement with disclosure was explained to be undertaken by treating it as a non-priority, and by rather approaching it as an 'after-thought' (R5).

4.2.4 Epistemic commitment

Another line of resistance to IFRS 13 that respondents described evidenced that the majority of them have an epistemic commitment to accountability being the root metaphor of accounting, despite the explicit acknowledgement of the information metaphor, as discussed in Section 4.1.1 (Durocher & Gendron, 2014; S. Ravenscroft & P. Williams, 2009). This was demonstrated by way of their discomfort with the trade-off between relevance and reliability and the over-emphasis of the neoliberal agenda evident in IFRS 13.

The trade-off between relevance and reliability was said to be apparent in the subjectivity which underlies the fair valuation process. This was seen to be problematic because: 'Management, with a flick of a wrist, can change a valuation overnight' (R1); hampering the reliability of the financial statements. This is an issue as it creates room for inaccurate fair values being reported, either due to inexperience preventing the proper exercise of judgement or because of manipulative adjustment (R5).

Subjectivity was identified to mainly be an issue with respect to level 3 valuations, where management has the ability to 'go wild' (R4). This is the case because a level 3 valuation is not based on an objective market-based measure but rather on inputs, which are determined by management, which are entered into a valuation technique, also chosen by management (R2 and R3).

> 'For intangibles an income approach makes sense. In fact, an income approach always makes more sense for everything. However, it's an incredibly subjective method. The more DCFs[11] I do the more nervous I get because it's a house of cards. You build assumption after assumption after assumption' (R2).

With regards to the fair value hierarchy disclosure, several respondents demonstrated reluctance towards level 3 disclosures on the basis of the extent of subjectivity that level 3 valuation entails, which intensifies as the period of valuation increases.

> 'So real estate is level 3 valuation. Level 3 means, who is going to decide what the valuation is? It could be this or it could be that and we could look at how much it would cost to replace this building now or if someone just built one, or maybe we should just look at the rentals, or maybe something else. So you get a variation in the prices of them' (R1).

> 'So by the time you are getting to year five you are adding too much blue sky. It's more of a thumb suck than a theoretical exercise' (R3).

The risk of inaccurate valuations being reported due to subjectivity is significant in level 3 valuations, to the extent that even auditors are seen to be wary of level 3 valuations. This level of caution to a

[7] Discounted cash flows

level 3 valuation could result in middle ground compromises made between the auditor and the entity, as described by Durocher and Gendron (2014), exacerbating the impreciseness of the valuation.

> 'The auditors would put more resistance where you have a level 3 where you've got no observable inputs. That's the area where there would be more questioning' (R6).

In addition to being subjective, level 3 valuations tend to be resisted because they require more work and are more costly, from a valuation and disclosure point of view, than a level 1 valuation which respondents appeared to have no issues with. For this reason, organisations tend to default to level 2, if possible (R4, R5, R8 and R9).

> 'It's very easy to understand level 1. The difficulty comes in between [level] 2 and [level] 3. Guys spend a lot of effort trying to understand the level of disclosure you've got to give around level 3. Nobody wants to do it. If they can get it into [level] 2, they'll do it but they'd consider it quite carefully and try to work it out' (R9).

The subjectivity involved in level 3 valuations for many financial instruments was also attributed as a reason to resist fair valuing under IFRS 9. The implications of imprecisions entering the valuation are seen to have massive repercussions in financial service organisations, due to the size of the organisations within this industry.

> 'Inputs are always subject to subjectivity and there's always going to be large differences especially in a financial instrument world. If you start talking about point zero zero zero one percent of a discount rate in a bank, it gives huge changes to their numbers' (R9).

The opposing argument to resistance on the basis of subjectivity is that a judgment-based financial reporting framework allows for a degree of subjectivity because economic realities are often different for similar transactions (R9).

> 'IFRS 13 doesn't create management bias. The use of fair values, you could argue, creates management bias but so does the use of cost. Management bias is always going to be there because what is the cost? Nobody knows what cost is either. In some cases, the fair value is easier to work out and is subject to less bias than what cost is, especially if it's a level 1 type disclosure. That is the number. That's it. Level 3: there are experts and accepted practices' (R9).

Even though there is an aversion to level 3 valuations, respondents identified that essentially 'levels are a compliance [issue] they tick at the end' (R5), and, therefore, their disinclination is unlikely to manifest in outright avoidance of level 3 if the inputs are unobservable. This is especially the case in South Africa, due to the regulation with respect to the hierarchy.

> 'I have seen guys actually thinking about the fair value hierarchy quite well. The JSE has been picking up and poking with their very pro-active monitoring reviews[12]. They actually force a lot of companies to question it and change certain levels for future AFS' (R9).

Several respondents also reflected a resistant attitude to fair value, and an epistemic commitment to accountability being the root metaphor of accounting, in their comments made about the volatility generated by fair value accounting (Durocher & Gendron, 2014; S. Ravenscroft & P. Williams, 2009). Respondents acknowledged the volatility to be invalid and unrepresentative of commercial reality; and faulted the point-in-time nature of fair value to result in misleading information being presented in financial statements. In this respect, these respondents identified historical cost to be a more reliable measurement basis, as it allows for a degree of predictability in the financial statements, which was seen to be essential for users' understanding of the performance of the business (R4, R8 and R10; (S. Ravenscroft & P. F. Williams, 2009)).

> 'So let's say the Rand peaked on 31 March and it went R16, it actually briefly did, and on the very next day it went down, it would be very misleading to have fair value there. There your financial information will go out of date and that's what happens with fair value. Whereas cost never goes out of date and that's why they do fixed assets at cost' (R8).

Conversely, other respondents indicated that they view the volatility characterised by fair value accounting to be reflective of real instability, underpinned in the markets and, therefore, its reflection in the financial statements to be logical.

> 'It depends. For a fund or investment holding company, it does experience volatility. They should. If their business is investing then they're measuring these funds appropriately, and if

[12] The JSE, annually, reports on the proactive monitoring activities it undertakes in order to ensure the integrity of financial information. One of the main areas of concern in the 2014 report, was the application of IFRS 13, and specifically the detailed disclosure requirements for level 3 assets/liabilities (JSE, 2015).

there is volatility, well that's the business. That's fair. There may be volatility but that's not because of IFRS 13, that's because of the market' (R2).

Certain respondents observed that the issue with volatility is not whether it is actual or not but rather that it is generally unrealised and, therefore, while the fair value might be reflective of an asset that is to be sold at that reporting date, that this is often not the case, and that fair value does not factor this (R5 and R10).

> 'I think that it's incorporating a lot that possibly shouldn't be there so that would be your economic reality. If you were to realise these assets today, what would the impact be… But you have no intention of realising this asset so it possibly is including a lot of information, and that is creating the problem' (R5).

The counter-argument to these comments, that subjectivity and volatility are brought about by IFRS 13, is that the point of the extensive disclosure prescribed in IFRS 13 is that it supplements the judgments made and the point-in-time nature of the balances.

> 'Balance sheet is at a point in time. That's the point of the balance sheet. That's why there are sensitivities that are disclosed' (R9).

It was also identified that fair value, in actuality, is a not a single value but rather, a range and that this range should be indicated in the disclosure (R1 and R2). However, the underlying issue with disclosure stems back to the fact that both preparers and users do not appear to prioritise disclosure and seem to treat it as 'less of a red flag' (R5), as discussed in Section 4.2.3, which results in the issue of subjectivity and volatility misleading users, remaining a key issue.

> 'For level 3, I think that's where the note is useful. It says that in coming to this number, R500 was our best estimate; however, based on our calculations the best estimate is likely between R400 and R600. I think that's useful…The problem is if you think of the logical flow, not many users delve into the note. Secondly, that R500 that you just put on the balance sheet, that's going to filter through your Statement of Comprehensive Income and going to hit your earnings and the whole debate then starts again. Notes are useful, as long as someone reads through them and makes the appropriate adjustments. I don't think users do that. There's a limitation there' (R2).

Even if the implications of subjectivity and volatility are excluded from the discussion, respondents still highlighted that the fair value they are required to report, in terms of IFRS 13, is often not a true reflection of the economic reality; further emphasising their disconnection with fair value. According to these respondents, IFRS 13 is required to be calculated from the market participant's perspective, which respondents view to not always correlate with the intention of the business, and therefore with the realisable potential of the item.

> 'I've given a couple of presentations when we're with the property expert valuators and when you start talking IFRS 13 to them they go this is the biggest load of rubbish ever. They are not of the view that it reflects what property should be valued at or what actually should be in companies' books and what the future discounted cash flows are, and I can understand it because if you intend to ever sell that building, there's certain things that you're going to do that are entity specific again, so taxes and that sort of stuff, that a market participant would have a different view of, and does start to then creep in' (R9).

> 'I think that [fair value] is incorporating a lot that possibly shouldn't be there so that would be your economic reality. If you were to realise these assets today what would the impact be but you have no intention of realising this asset so it possibly is including a lot of information, and that is creating the problem' (R5).

The argument raised by respondents, that the strict application of IFRS does not always result in the most economically correct treatment, was not only limited to IFRS 13 but also extended to the application of other parts of IFRS that, according to respondents, is not always resulting in faithful representation.

> 'The other area is IFRS 9 and their unit of account. That is a massive, massive, massive problem. The unit of account is per share. So if you're talking about an investment in Woolworths, you're talking about it per share. Because that's what you can go and buy a share for in the market. If I had a controlling stake in Woolworths, I can tell you my value per share is not equal to the share price. It's more than that because of the control premium. IFRS needs to somehow deal with that…But IFRS 9 says you have to look at it per share, whereas, practically when you are doing the valuation you look at the total value of the business' (R2).

The overall impact of the neoliberal spirit of IFRS 13, that incorporates subjectivity, volatility and a market participant's perspective, was acknowledged to result in fair value representing 'just a figment of some accountant's mind' for most organisations (R1). The implication of this correlates to the findings of Gendron and Tremblay (2011, p.266): that regulation is 'an ineffective means to solve challenging and enduring problems' because of the interpretation gaps and practical issues encountered in the application of the regulation. The ineffectiveness of IFRS 13 as regulation, together with the epistemic commitment evidenced to accountability being the root metaphor of accounting, highlights the inevitability of resistance to IFRS 13.

4.2.5 Business model

The respondents' epistemic commitment to accountability being the root metaphor of accounting was also evident in the views expressed by them about cash. Respondents demonstrated a focus on the cash flows that have been generated in the organisation, as these are considered to be an effective indicator of the performance of the business (R1, R2, R4, R5, R8 and R10); as opposed to profit and loss determined in accordance with IFRS, which is seen to be impacted by IFRS adjustments that detract from the 'real earnings' of the business:

> 'I always try and [understand] what are [the] real earnings and cash earnings from what are other earnings like fair value adjustments etc. I think that's an exercise in itself. So when I look at the Statement of Comprehensive Income, I don't just go and say, "Okay cool I made 43 million last year. That's my profit." No, you have to go and dissect that. It's a limitation' (R2).

> 'I think if you're talking to someone purely from an operational perspective, they worry about cash flows. At the end of the day, that is their concern. We've lent money, fine there might be a derivative that strictly speaking is fully fair value but they don't care. They want to know what the cash flows are' (R5).

Therefore, the majority of respondents view cash to be an indicator of value creation in the business, and as such, crucial information reflecting performance and position. This is in-line with the EFRAG's, and other European standard setter's views: "that the reason a business exists in the first place is to create or add value for its owners…and cash flows, and their timing as well as related risks, have a significant impact on the value creation to a business" (EFRAG et al., 2013).

IFRS includes reporting on cash flows in the form of the Cash Flow Statement, and related notes. The objective of this statement is to inform users about the entity's ability to generate future cash inflows by indicating how the entity obtains and spends cash; including information about borrowing and repayment of debt, cash dividends, cash generated by operations, and other indicators of solvency and liquidity (IASB, 2010a).

Despite this requirement, the respondent's persistent observation of the inadequacy of cash reporting was an implicit indication of the fact that the current reporting on cash is viewed to be insufficient, and not in the format that respondents consider to be valuable (R1, R2, R4, R5, R8 and R10). While the current statement disaggregates the cash movement during the year into the different activities that resulted in the cash movement, the respondent's association of cash with value, highlighted the need for additional cash reporting; more in line with that recommended by the EFRAG: that presents the conversion of cash, from inputs to outputs, indicating the value added to the business (EFRAG et al., 2013).

The need for reporting evidencing the conversion of cash highlights the respondents' epistemic commitment with accountability being the root metaphor of accounting, as identified in Section 4.2.1 and 4.2.4 (S. Ravenscroft & P. Williams, 2009). This is because such cash flow reporting would indicate the value created by management, as opposed to the potential value that could be generated if an orderly transaction was entered into (the exit price) (IASB, 2011). This fundamental conflict with the respondents' assessment of financial reporting, and the reporting advocated in IFRS 13, largely explains the theoretical resistance to IFRS 13.

What was also evident was that focus on cash flow reporting and disinclination with fair value were not identified by all of the respondents interviewed. The finding was prevalent; however, certain exceptions were noted. The exceptions were the organisations representing the financial services industry. Organisations from non-financial services industries adopted the view that fair value accounting represented an IFRS concern while organisations from the financial services industry allocated importance to fair value information.

> 'Fair values typically speaking, in an ideal world, are live information and I think retailers would take a more extreme approach of: "Listen we are worried about our cash flows here."

> And I know fair values should ideally provide an indication of cash flows, but for them, it's the debit and credit to bank that they stress about' (R5).

The industry distinction noted was indicative of the fact that there are differences in the way business are managed, and that these difference filter into financial reporting and create tensions. In this way, the role of the business model concept in financial reporting was identified in the interviews conducted.

> 'It's just the way their businesses are run and the information that's needed from it. If you look at the business models of financial institutions, listed property companies and agricultural companies, they themselves manage their business on a fair value basis. The biological guys look at fair value because the yield they're going to get is based on fair value. If you look at a manufacturing company they don't care what fair value represents because they have a selling price and a cost and those are the two leaders. The same [condition is existent] in a mining type company' (R9).

While the literature in Section 2.3.2 indicated that the industry of an organisation is merely a shortcut for the description of the business model, respondents consistently used this level of distinction to refer to the business model concept. Respondents recognised that different accounting treatments, with specific reference to the use of fair value, are warranted in different industries. Non-financial services industries were said to have no place for fair value measurement, and as such, resisted it.

> 'I suppose there might be some industries where [fair value accounting] make[s] a difference but where I'm working at the moment, it's just a waste of time. I think our business focus is just on profitability and cash generation' (R4).

4.2.6 Fair value increases transparency

Another line of resistance identified, specifically to the IFRS developments requiring more information about the business to be disclosed, was that it exposes aspects of the organisation; which is undesirable, either because those aspects are unfavourable and 'tells the truth about them' (R1), which opens up the business to criticism, or because they reveal 'trade secrets' (R10) about the business (R4 and R6).

> ‘We used to have [a] thing called other income. It was a very small little thing and it was maybe R10 million a year. Remember we’re making R1 billion [in] EBIT[13] so it’s tiny. We had to give a breakdown of it. I called up units and asked what it is. They said insurance proceeds and labour unions and scrap sales and I listed them all, and we slotted them in the financials, and two years ago we get an email from SARS[14] saying just before we close 2009, we’ve got all these questions on your VAT for that year. They asked us for the VAT invoices for all the commissions, and insurance proceeds. The additional disclosure cost us’ (R8).

With regards to IFRS 13 disclosure, the information that could possibly reveal more than what is desired about the business to either users or competitors, was indicated to be the ‘the weighted average cost of capital and risk’ (R9), which enables a valuation of the business to be performed, thereby exposing the business to a perceived risk.

The perceived risk also includes exposing the entity’s bias with respect to valuation judgments made that are skewed. This risk is specifically relevant in the case of level 3 valuations and was a motivation for resisting IFRS 13 disclosure requirements.

4.2.7 IFRS complexities

The fear of disclosure over-exposing aspects of the business, and of the application of IFRS not always resulting in a faithful representation of reality, was attributed to the overall concern of IFRS increasing in complexity; a problem which fair value was seen to be a part of. The impact of the increased complexity of fair value accounting was identified to intensify resistance; specifically, resistance based on the cost-benefit argument because costs are seen to be increasing with no real benefit being evident due to the complexities (R1, R2, R3, R4 and R5). Even respondents that understood the benefits of IFRS 13, acknowledged that the complexities are so significant; that they fall beyond the realm of the practicality.

> ‘IFRS 13 is relatively new. In the ideal state, I do think the cost is worth the benefit. I don’t know if that ideal state is even attainable’ (R5).

There was a definite indication that the complexities of IFRS 13 are hindering organisations from their real business objectives; and once again this was especially observed to be the case amongst

[13] This is a performance indicator defined as earnings before interest and tax
14 The South African Revenue Service (SARS) is the revenue service (tax-collecting agency) of the South African government

entities within the non-financial services industries, which have business models that are not aligned with fair value (R1, R2 and R3), as discussed in Section 4.2.5.

> 'So you pay some backroom actuary to perform some sophisticated calculation, and pay thousands of Rands to get this calculation of the amount of CVA and DVA[15], and it comes back with a figure that makes no difference in financial reporting. I really don't see the point of that. For a bank that trades, this is an important feature' (R1).

A general distress with increased complexity was that it increases the work required for the year-end audit, and thus increases the fee, without a real impact on the image that is being portrayed to users.

> 'Say it's a fair value, that means extra [audit] work which doesn't even bring happiness to the client, and if they're not happy it means they're not happy about paying the fee; and they're not happy about IFRS' (R1).

The difficulties of the applying the complexities of IFRS, which was agreed by respondents to 'go over [users'] heads' (R8), was said to be futile because it results in undecipherable financial statements (R3, R4 and R8).

4.2.8 Disillusionment with IASB

By acknowledging the complexities of IFRS, and an absence of realistic accounting treatment that respondents are committed to (see Section 4.2.4), respondents revealed their disillusionment with the IASB. They faulted the standard-setting body for not having due processes in place prior to the introduction of many new IFRS developments and pointed towards weaknesses in the procedural legitimacy of the IASB.

> 'The IASB normally goes through a long process to make amendments to any statements. [The amendment to IAS 39] came out the blue. We woke up one day and they said by the way here's an amendment to your statement. It's because everyone's investment was going down. When stocks were going up everyone was happy with what was happening in profit and loss because everyone was just getting gains. Then suddenly stocks were coming down. They were

[15] Credit Value Adjustment (CVA) and Debit Value Adjustment (DVA) are IFRS 13 terminology referring to the credit risk of the counterparty, and the credit risk of the entity itself, respectively

scared. Maybe there were worried that they might be a whole lot of panic if people saw stocks going down and losses being incurred as a result of these stock' (R8).

Another respondent indicated that the need for constant amendments to standards was due to a lack of compliance with standards and that the complexities inserted into standards, which are tending to be rules-based in nature, are there to create an anti-avoidance effect.

> 'People actually may be misapplying the principles and maybe not understanding what they mean by the principles so [the IASB] are trying to get more compliance with the outcome they want…When you look at IFRS 15[16], just look at what they've done. They're trying to actually capture in that every single transaction that has actually given hassles so I think some of the times it's not so principles based, it's very rules based' (R10).

The lack of procedural legitimacy was attributed by respondents to be also due to financial and political pressures, evidencing deficient independence (R4, R8 and R10)

> 'The IASB, as much as they try and be independent, there are some political interferences due to funding, adoption of IFRSs. There are various things that they do give into' (R9).

> 'I think they are becoming quite subjectivist to political pressures. The biggest example is the whole debt instrument FVTOCI[17]. What is that? There are people who don't want to put it into P&L[18]. They want an element of two models. That to me is –you buckled. You had a very nice model, but now the hybrid is strange' (R5).

Respondents also pointed to the questionable substantial legitimacy of the IASB; asserting that several standards depart from the Framework, and are inserted merely to stress the interests of large auditing firms[19] (R8 and R9).

> 'You'll read through the statement and generally you will find there are bits in there that you think: "Geez they've got this in here to make work." You become cynical when you get to my age because you actually learn that believe it or not, there's no such thing as a conspiracy theory, it's out in the open. Guys really do things like this. They really do slop things in

[16] IFRS 15 Revenue from Contracts with Customers will become effective in 2018
[17] Fair value through other comprehensive income
[18] Profit and loss
[19] The composition of the IASB during the period covering the IFRS 13 project consisted of four people with auditing backgrounds, of a total of fourteen members

standards so that the audit firms will make more audit work because basically the guys who are setting the standards all work for the audit firms. They are sponsored by audit firms' (R8).

These comments about the legitimacy of the IASB are perhaps the consequence of coercive isomorphic pressures, which entails political decision makers being ignorant to the effects of the environment over which they regulate, and the impact of their regulations (DiMaggio & Powell, 1983). The result of this unawareness, which was evident by the above responses, is that standards are not meeting practical demands and are unnecessarily theoretically strenuous (see Section 4.2.7).

4.2.9 Earnings management

Earnings management was identified to be a crucial focus of organisations, and to the extent that fair value accounting interfered with this objective by not painting a favourable picture, fair value was seen to be resisted (R2, R4, R5, R8, R9 and R10). This can be linked back to the idea of financial statements serving as a tool for funding, as discussed in Section 4.1.1.

> 'They're very reluctant…For them earnings management is crucial. People's jobs are on the line for earnings management. If you have a dip in earnings simply because you bought another company, no-one cares. A good analyst will always understand but the average analyst will say this company has done worse now because it bought that business. And they can't have that' (R2).

The need for a conceptual inclusion of the business model concept in financial reporting was, again, evident in this line of reasoning. This is because it was mainly the respondents linked to organisations that do not have a business model aligned with fair value (non-financial services industries), as discussed in Section 4.2.5, that viewed unfavourable fair value movements as an unjustified impact on their image; due to the fact that they distort earnings by not reflecting the true value creation of their business (R1, R2, R4 and R8).

> 'Manufacturers try and deliberately avoid volatility through earnings management. They are the ones resisting saying I don't want this fair value adjustment because it doesn't make sense. If a company's been measuring its PPE[20] at cost for the last twenty years, and we come along and say no it must now be fair valued, there's going to be volatility because the fair value

[20] Property, Plant and Equipment

adjustment will go through earnings-yes there will be a huge kickback. They'll say this doesn't make sense. So yes there will be pushback from that point of view' (R2).

Many of these non-financial services based organisations indicated that they use either EBIT or EBITDA[21] to manage their business, and, as long as fair value movements are processed at a level in the Statement of Profit and Loss and Other Comprehensive Income that comes after these performance indicators, that they did not have a reason to resist the fair value movements. For this reason, OCI was seen to be an ideal place in the Statement to 'dump' the fair value movement (R4, R8 and R10).

'If it went to P&L, as long as it went to the right place, as after EBIT, then I think it would be fine. If it goes through OCI, I think most people would want it all going through OCI because you wouldn't want that type of thing going through earnings because people don't believe it is earnings. Earnings is the business's ability to generate profit, it's not the gains they've made on an asset they have to hold. It is a very different type of profit. If it is in the income statement separately, below EBIT, it can be easily removed' (R8).

IFRS 3[22] was observed to be a specific area of resistance because the acquisition of assets that are to be recovered through use have implications for future earnings (R1 and R2).

'IFRS 3 is a controversial standard. The politics around IFRS 3 is the more amortisable intangibles you put on the balance sheet, that's a worry as an acquirer because they're looking at their earnings. And I'm talking about a listed company looking at their earnings next year…If I put a lot of amortisable intangibles on the balance sheet as a result of the IFRS 3 process, that can raise resistance because people are saying next year I'm going to have to amortise all those things. I'm not happy. So in that instance, they'd be happy for me to lower the values for the amortisable intangibles, and shift the balance into goodwill... They're not too fussed about goodwill because that doesn't really affect headline earnings as much, besides goodwill impairment, which is also not a desirable effect' (R2).

Summary

[21] Earnings Before Interest and Tax (EBIT) and Earnings Before Interest, Tax, Depreciation and Amortization are performance indicators

[22] IFRS 3 Business Combinations (IASB, 2008).

The above discussion has highlighted the range of motivations for resisting IFRS 13 identified by respondents. The analysis indicates that application is not a rigid and definite process and that rationalisation occurs. Theoretical and practical tensions created by IFRS 13 have created a general resistant attitude towards fair value accounting, with some exceptions noted. How the attitude of resistance manifests in practice, and how the culture of compliance interacts with the resistant attitude, is discussed in Section 4.3.

4.3 Mechanisms of resistance

The implication of the above motivations of resistance presented is that none of the respondents evidence a rigid conformance to fair value accounting principles. As such, there was no indication of the existence of docile bodies in the professional accounting sphere in South Africa. Most respondents demonstrated an appreciation of logic and efficiency with regards to IFRS application, as opposed to the rationalisation of every aspect of IFRS 13 (Durocher & Gendron, 2011).

However, there was also no indication of active rejection of fair value accounting, in totality. All respondents acknowledged the purpose of financial statements, consistent with that described in the Framework, and evidenced participation in a culture of compliance, for reasons that can be linked to the need to survive in the business environment.

Instead, respondents evidenced resistance in the form of decoupling, whereby gaps are created between IFRS 13 principles and the actual fair value accounting treatment presented in the financial statements, through avoidance of fair value accounting. This was not the case for all principles, nor was it uniformly the case for the same principles amongst all respondents but rather differences and similarities in the application of decoupling amongst respondents were observed.

Certain mechanisms of resistance were considered to be valid forms of avoidance, as they fall within legitimate provisions created by IFRS; whereas other mechanisms reflected blatant disregard of IFRS principles. Even with respect to the valid mechanisms of resistance, it was observed that abuse of these legitimate provisions can be indicative of decoupling.

4.3.1 Alternate bases

In standards where there is an election with regards to the measurement basis, it was determined that alternate bases are opted for in place of fair value (R1, R2, R4, R6, R8 and R9); and therefore, resistance is characterised by non-use.

> ‘So whenever guys get something, if they can avoid the fair value, they will typically avoid it unless it’s part of their business model to manage on fair value, then they’re happy…. If you don’t like fair value, then don’t use fair value. If the standards have mandated you to use fair value, then tough’ (R9).

It was acknowledged that while this does evidence a form resistance to fair value, that resistance in this form can be considered valid, as the point of the alternate bases approach is that market prices are only relevant in cases in which the business adds no value to the asset, and in cases, where it does, market prices would be less reliable and less relevant, making historical cost a more suitable alternative (ICAEW, 2010).

> ‘I wouldn’t go to fair value. So for a manufacturing or mining company, to put your buildings and PPE on fair value; why? Unless you’re sitting in a hyper-inflationary economy or something like that, fine, but if you’re not in that space, there’s no benefit. You’re not going to sell the building, you’re using it’ (R9).

Certain respondents indicated that even in the situation where a standard provides an election, and fair value results in the most relevant information being presented, the more favourable accounting policy might be elected. This links back to the focus placed by organisations on earnings management, as discussed in Section 4.2.9.

> ‘The kinds of transactions we are looking at where they need to see do we go amortised cost or fair value through profit and loss, which is where people do calculate to see what will work better for us’ (R6).

In the situation where fair value is the more relevant accounting policy, the avoidance of fair value cannot be seen as a valid response but rather as the abuse of the alternate bases approach, and as such, as the creation of a gap between the purpose of financial statements and the information presented in the financial statements. This is because, in this circumstance, consideration of the end-user does not get factored into the choice of accounting policy, as is required by IFRS. Therefore, this form of resistance involves decoupling, as opposed to the situation where fair value is not the most relevant accounting policy.

4.3.2 Materiality

Another mechanism that respondents mentioned, that can be considered to be a valid form of resistance, is to use the thresholds of materiality[23] to justify non-application of fair value accounting. This can be considered valid because if the fair value is not relevant to the decision-making needs of users, then the purpose of financial statements is being upheld, even with the omission of fair value accounting.

> 'Materiality is often used, which is fair. Materiality does exist for a reason and I think the world is going to be using more of materiality if we look at disclosures etc. IFRS 13 was one where people did use materiality. "Our old fair value is not going to differ that much from our new fair value. Materiality-let's just carry on. We'll give disclosures. Yes, sure, but we're not going to change the way we necessarily have done our fair value." Materiality does always have a play. The trick is always just to make guys aware that it might not be material now, but it's not to say it won't always be immaterial in the future and you always need to do that assessment. So there is still some level of work' (R9).

Respondents indicated that justifying non-application on the basis of materiality is the ideal method of resistance because it allows organisations to operate within the boundaries of compliance to avoid accounting treatment, which is compatible with their 'tick the box' mentality and with their disinclination with fair value (R6).

However, comments made by respondents suggested that in many circumstances materiality is abused to resist fair value accounting, in which case the resistance is no longer within the boundaries of validity and rather represents outright avoidance of IFRS.

> 'I think materiality is a big cop out that lots of people use to not report things correctly or measure things correctly' (R10).

The exploitation of materiality occurs when materiality is assessed on the basis of cost and effort, as opposed to size and the particular circumstances of the organisation (R1, R7, and R8).

[23] According to the Framework, information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

> ‘To value an R50 million asset will probably cost you R1 million a year. I’m paying external valuators [to] come and value the asset and you probably need to get that for all two hundred offices across the country, depending on materiality you might get away with five or six locations. So it will cost you a lot of money. It’s driven by materiality’ (R7).

4.3.3 Feigning ignorance

A mechanism of resistance that was identified was preparers feigning ignorance to certain principles of IFRS, by using the complexities of IFRS as an excuse, as discussed in Section 4.2.7, to avoid applying it.

> ‘So this is half year with a derivative liability. We agree that we’ll review it quarterly and at a minimum, half yearly. I updated the inputs to the most recent we have. I didn’t like the amount. We can’t use this. And we didn’t report anything. So when the auditors came and asked if we made any adjustments, we were like “No, we didn’t do anything”’ (R4).

This mechanism was acknowledged to often go undetected, as the auditors are said to often lack the ability or time to notice the gap in judgment.

> ‘It’s a case of arguing it in a way and I’ll be quite honest with you, you can say “Oh I forgot about it! Oh, really?” That’s a tactic which is often pulled. If you think if it’s really misleading and significance might be a little bit large you might apply the standard and get confused about the application in a particular area, so there is that and I generally try and not to do that but I get a lot of push from our CFO to do that and I would say that in practice, that happens lots. [The auditors] come here and they have no idea of what the new standards are. They have no idea how the new standards work and if something is sufficiently complex then you can show them a complex working, and they’ll think you’ve done it right. That’s basically how we avoid certain things’ (R8).

This mechanism of resistance can also be seen as a gap between the purpose of financial statements and the actual financial statements that are presented. While the mechanism of feigning ignorance to IFRS could be considered blatant disregard of accounting, it is not as severe as active rejection as respondents indicated that if auditors would detect the misstatement, that they would correct the accounting (R4and R8).

4.3.4 Manipulation

A mechanism that can be considered tantamount to blatant disregard is manipulation of figures presented in the financial statements, which involves creating a more favourable impression through tactical manoeuvring of the room of judgment afforded by IFRS.

A principle in IFRS 13 that was observed to be contentious in this regard is the principle of measuring the fair value of non-financial assets using the highest and best use[24] from the market participant's perspective. Some preparers viewed this principle as an opportunity to use the most favourable value, even if it was inconsistent with the spirit of the principle (R1, R2, R4 and R10).

> 'I fear that if we were to [apply the highest and best use principle which entails] two comparisons, we might pick the best one every year. And it might lead to some inconsistency in terms of valuation techniques. I worry about that' (R4).

> 'So [preparers] would go to some kind of generic value, instead of looking at the actual asset and I'm sure all those problems, like with your highest and best use, must be one of the areas where I would imagine preparers are not wanting to make the effort of actually finding out those values. I don't think you could choose to actually not apply fair value measurement if it's a requirement in IFRS. So it's really where your choices are' (R10).

The concern with choosing the most favourable value, even though it might not be physically possible, legally permissible or financially feasible, is that it amounts to manipulation of inherent judgment that underlies the principle.

> 'Around real estate investment properties –this highest and best use is often a ridiculous debate we have with people. They've got a farm in Mpumalanga and they don't like the value and they say we could build a casino here. What else could this property be? So that's a very hypothetical debate because really you could turn that into a space station. It's become a silly debate often. Our argument is a practical argument that if you are using it as a farm, does that not mean that it is already at the highest and best use? Why are you talking about building a casino' (R2)?

[24] The highest and best use is the use of a non-financial asset that would maximise the value of the asset from a market participant's perspective. This use is required to be physically possible, legally permissible and financially feasible.

Respondents referred to another technique to manipulate the figures in the financial statements, which involves the skewing of technical inputs of valuation that the auditors or users would not be familiar with, in order to obtain a more favourable picture (R3, R4 and R8).

> 'If you have an engineer that wants his assets to appear higher and he's good at justifying it from a technical point of view, and he understood that he needed to get a high value, he's going to (unless there's another engineer or the audit firm has some very good understanding of engineering sciences to argue with) do that' (R3).

The nature of manipulation mentioned by respondents was such that it could not be considered as fraud, as the manipulation was confined to the room of judgment that is afforded to preparers in the application of IFRS, and, therefore, could not be considered as a false representation of a fact.

> 'There is a bit of manipulation. So if you had everything at fair value it would basically be what your auditors allow you to get away with. So if you hear that [audit firm 1] is more lax on their discount rates maybe you would switch to [audit firm 1] to bolster your balance sheet. I imagine there would be some type of agreement amongst auditors' (R8).

The line between manipulation and fraud was recognised by respondents and the crossing of the line was indicated to be unlikely, considering the culture of compliance and the amount of regulation in South Africa (R4 and R5) (see Section 4.1.2).

4.3.5 Over-reliance on auditor

Another mechanism of resistance that was identified was over-reliance on the auditor, either to provide the expertise on IFRS 13 or to amend any deficiencies that may be apparent in the accounting, allowing the organisation to neglect their responsibilities of application. This mechanism of resistance is likely the consequence of the increasing complexities of IFRS (see Section 4.2.7).

The concern with this mechanism is that it results in the auditor's responsibilities coinciding with that of management. This is undesirable for the sake of independence, as the credibility of the financial statements is the foundation upon which economic decisions can be made.

> 'I have some difficulty in accepting that auditors can be supplying information to their client for use in their financial statements when they then have to express an opinion on it themselves' (R1).

Organisations that rely on the auditor to provide the fair value accounting expertise were observed to be small organisations, as well as organisations that do not have a business model aligned with fair value (non-financial services industries), as discussed in Section 4.2.5; as it is these organisations that are not equipped with the in-house valuation experts, due to the fact that the benefit derived from such is viewed to be minimal (R4, R8, R9 and R10).

> 'Generally smaller entities will typically take that approach where they don't have their in-house expertise. And fair valuing is an expensive exercise so they'll go oh well, we think just put that number and the auditors will come and prove us wrong. That definitely does happen. The larger entities generally have the processes and the know-how' (R9).

Bigger organisations, especially those that have a business model based on fair value (the financial services industry) tend to have the in-house valuation expertise. Their relationship with the auditors is more of a collaborative one, which requires a closer involvement. This is synonymous with decoupling because it provides evidence that these organisations are not substantively fulfilling their responsibilities of financial reporting, and are avoiding certain aspects for the auditor to resolve (R5, R6 and R7).

> 'We try to work very closely with our auditors. If there's anything we weren't sure of, we rather consult with them and get their view on that to make sure that they are happy with the assumption we supplied because you also don't want to be in a situation where this becomes massive during the audit. That's the way it should be. The auditors should be someone that you feel free to contact if you need a sounding board' (R7).

The existence of this mechanism of resistance is indicative of the fact that members of the same professional background tend to not have the same level of engagement with knowledge templates. Members of businesses appear to have a secondary engagement with IFRS, as their primary purpose is to derive profits and cash and create value for the business (see Section 4.2.5); whereas members of the auditing profession appear to have a primary engagement with IFRS as their mandate entails providing an opinion on IFRS application. This difference in the degree of engagement is what appears to create variability in commitment to IFRS principles.

> ‘At [my company] we had a big team with [audit firm 2]. There must have been about five or six CAs. [Audit firm 2] were our auditors so we engaged [with] them a lot to do CPD[25] training. It was quite good because we were forced to go to the CPD updates. We would have an audit planning workshop a few months into the year. We even had half year reviews as well. And the auditors would go through any new IFRS statements that had come out and how they would apply to us…it was a co-dependant relationship with [audit firm 2]’ (R3).

Members of businesses evidence a weaker commitment to IFRS principles; however, the need to survive prevents them from actively rejecting IFRS. Audited financial statements are viewed as a necessary tool and IFRS as the enabler of the tool.

> ‘I think with auditors, you get to [the] stage where you say: “Okay fine, just go and do it. Tell me what to type.” At some stage, you get to that point because you don’t feel that effort is worth it. But they feel compliance, compliance, and compliance but it’s not going to change anything, especially when you’re preparing financials for a PTY. Maybe for a public company, it might make a difference. It would make a difference but sometimes for PTYs, you’re like: “Screw you, auditor…Is it going to affect my audit report? Tell me what to put”’ (R4).

Considering that the members who have a greater ideological commitment to fair value accounting principles (the auditors and the external valuators) are external to the organisation, it appears unlikely for a recoupling process, as suggested by Tilcsik (2010), to occur with regards to IFRS 13 application. The process of recoupling would require IFRS reformists to be involved internally in the organisation, as it is likely to be in the internal processes that superficial adherence can be transformed into substantive application (as was the case in Espeland (1998) ; Hallett (2010); and Tilcsik (2010)). Any recoupling that occurs due to the involvement of auditors and external valuators is unlikely to be permanent, as these members do not ultimately have control over long-term implementation.

Summary

The above discussion has indicated that decoupling is used to resist IFRS 13. This entails gaps between the fair value accounting presented in financial statements, and the fair value accounting

[25] Continuous Professional Development (CPD)

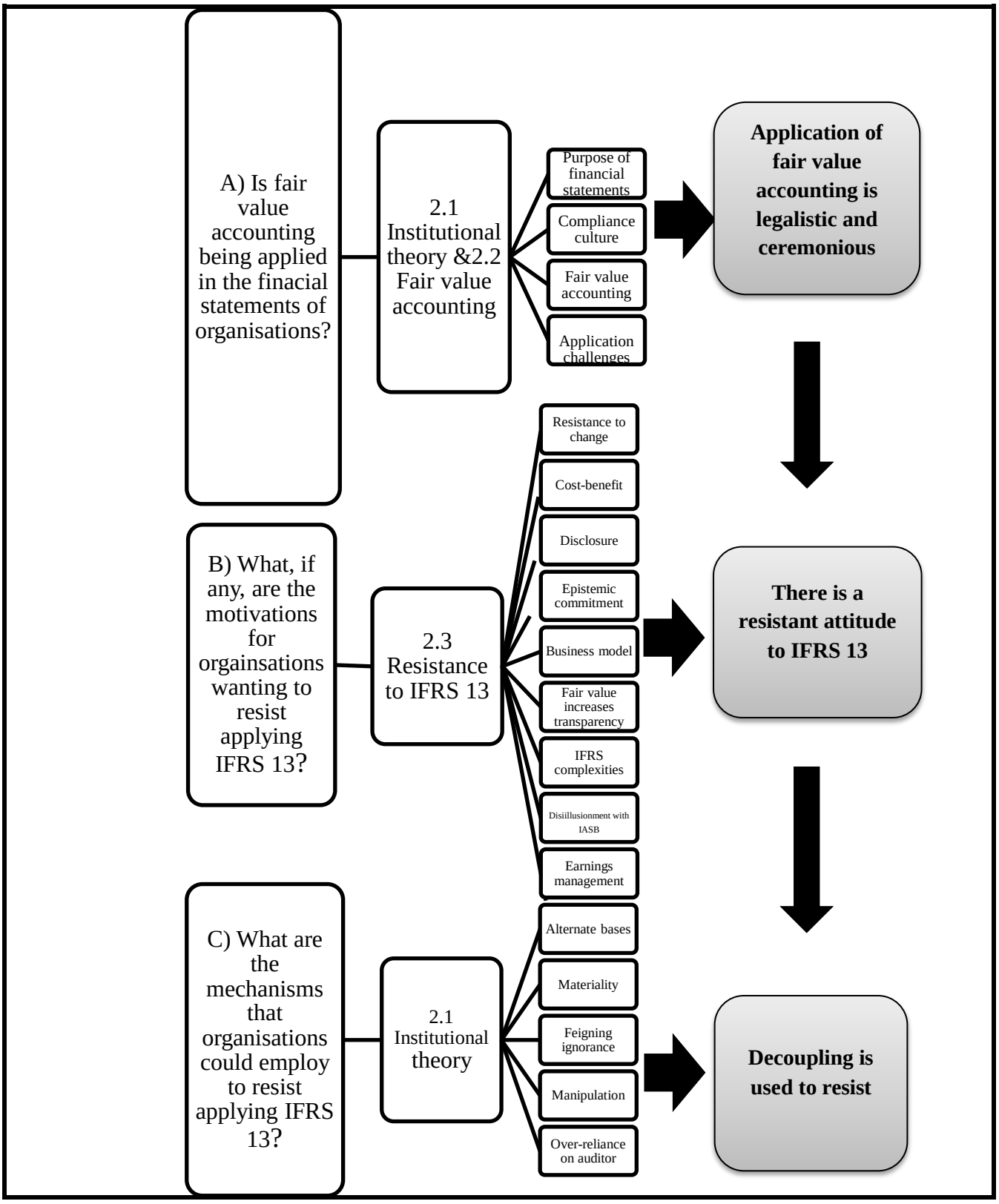
treatment prescribed in IFRS 13. Some of the mechanisms employed to resist can be considered as valid responses as they represent legitimate provisions in IFRS, such as the use of alternate bases and the use of materiality to justify non-application of fair value accounting. However, the abuse of these provisions is not valid and is indicative of decoupling.

Other mechanisms, such as the feigning of ignorance, manipulation of the judgment afforded in the valuation process and over-reliance of the auditor, cannot be considered as valid mechanisms of resistance; and instead represent blatant disregard of IFRS. This is different from active rejection since it was indicated that the lapses are corrected if detected by the auditors and that any manoeuvring is with respect to the judgment afforded by the standard, as opposed to factual misrepresentations.

5. Conclusion and recommendations

This section summarises the findings of the research, provides recommendations and identifies areas for future research. As discussed in Section 3.6, a conceptual framework is being used to demonstrate validity in the study. This conceptual framework explains, in graphical format, the main themes studied and how these themes together contribute to the conclusion. This has been illustrated below in Figure 2.

Figure 2: Conceptual Framework



5.1 Summary of paper with concluding remarks

Based on the above findings, it can be concluded that organisations in South Africa are employing logics of resistance to avoid applying IFRS 13. From a legalistic point of view, organisations do apply fair value accounting to their financial statements. This is because coercive isomorphic pressures, driven by the Act, force organisations to comply with IFRS. The need to obey the law, and the fact that the impression made with financial statements essentially drives funding, means that organisations have to comply with IFRS in order to survive in the current business environment. This results in a culture of compliance surrounding financial reporting, which prevents the substantive application of IFRS, where the end user is considered; and instead creates a 'tick the box' mentality, which entails application on a ceremonious level.

The range of motivations to resist IFRS 13 identified, intensify the logic to resist to fair value accounting. Despite the standardisation brought about with the introduction of IFRS 13, resistance to change meant that it was not received well. This is especially the case because of the assessment that many requirements in IFRS 13 are not worth the benefit, considering the cost of application; especially with respect to the extensive disclosures required. In addition, epistemic commitment with accountability being the root metaphor of accounting, which was found to include a greater emphasis on cash reporting and disinclination with the neoliberal agenda of IFRS 13, means that the standard is resisted on a theoretical basis. The fact that IFRS 13 is complex in nature, results in greater transparency and can negatively impact earnings management, further intensified the resistant attitude. Overall, the concerns with IFRS 13 that were identified indicate disillusionment with the IASB.

For these reasons, organisations are employing mechanisms to resist fair value accounting. The mechanisms do not entail active rejection of fair value accounting principles, in totality; due to the fact that the culture of compliance prevents them from doing so. Instead, decoupling is used to resist, which entails gaps created between the purpose of financial statements, and the financial statements prepared by entities.

It was found that often the mechanisms used to resist, fall within the boundaries of validity because they represent legitimate provisions in IFRS that allow the preparer to not apply fair value accounting. These include opting for the alternate basis of measurement, where IFRS has adopted this approach;

as well as using materiality to justify non-application of fair value accounting. However, even these forms of resistance entail decoupling where they entail abuse of the provision.

Other mechanisms of resistance include feigning ignorance to certain provisions, outright manipulation of the room of judgement afforded to preparers in order to create a move favourable impression, as well as over-reliance on the auditor to provide for the accounting treatment that is required.

Overall, the findings evidence the fact that there is a disconnection between financial accounting standards and the way businesses are managed. The result of this is logics of resistance to IFRS, which fair value accounting has an increasingly prevalent part in. For this reason, some recommendations, based on the findings of the study, have been outlined.

5.2 Recommendations and areas for future research

The motivation to resist fair value accounting due to earnings management was an important finding of the study. It can be assumed that this motivation to resist could be prevented if the presentation of the income statement made a distinction between earnings from adding value to assets, and earnings that represent changes in market prices (ICAEW, 2010). This would allow for a more informed analysis of the performance of the business, aligning management of the business and financial reporting; and would alleviate the issue of preparers focusing on non-IFRS performance indicators such as headline earnings per share, or choosing accounting policies where the earnings adjustment are recorded at a level below the performance indicator they manage. Whether this form of the income statement is practically feasible, is debateable, and is an area for future research.

Another key motivation to resist fair value accounting was identified to be the onerous disclosures that are required by IFRS 13, specifically for level 3 valuations. The disclosures were said to be so voluminous and incomprehensible, that often prepares and users alike, ignore them. In this regard, a disclosure framework would be useful in guiding standard setters and preparers about the information that is most important to users of the specific entity's financial statements. The FASB has issued an exposure draft for such a framework, which is currently being deliberated (FASB, 2015); however more academic research in this area is needed.

A key theme identified in the study was the need for a greater role of the business model concept in IFRS. For the inclusion to be successfully implemented, the term would need to be defined in the

Framework, and in the standards that use the term. Furthermore, all standards would need to be capable of faithfully representing the business model. Where applicable, the business model should be explicitly incorporated on a standard-by-standard basis, to operationalise the concept. The Framework would also need to highlight and illustrate how the business model can play a role in recognition, measurement, and presentation and disclosures at a standard level (EFRAG et al., 2013). This would also result in greater integration of the financial statements with the others sections of the annual report; the effect of which being more cohesive financial reporting.

In addition to clarification and consistent reference to the business model, additional reporting on the cash flows would also have to be incorporated into financial statements, in order to reflect the value creation of the business. This would require a different approach to the current Cash Flow Statement in IAS 1, which simply disaggregates the cash flow movement into the different activities that resulted in the movement. In addition, information would be required that describes how cash was converted to create value, from inputs to outputs. Whether this reporting is feasible, and how it could be incorporated into current financial statements, is an area for future research.

IFRS 3 was identified to be a specific area of resistance to fair value. As a topic for future research, it would be relevant to identify if resistance to IFRS 13 is greater among entities that only use the standard for the purposes of a business combination, as opposed to entities that are regularly required to use fair value accounting.

Appendix I: Interview Agenda

The following ten questions were included in the agenda provided to respondents before the interview. Additional probing questions were raised as needed.

1) What in your opinion is the purpose of financial statements, and why do you feel that way?

2) Why do you think the IASB introduced IFRS 13? Could the accounting community have done without it or was it necessary and why?

3) What processes do you follow when the IASB introduces a new standard or a significant amendment to an existing IFRS?

4) Have you incorporated fair value measurement into your financial statements?

5) Do you use any of the IFRS 13 fair value measures in the operations of your business / decision-making functions of your business?

6) Do you think that by measuring assets and liabilities at fair value, as defined in IFRS 13, the purpose of financial statements is being achieved?

7) What problems have you experienced/ do you foresee being caused by fair value measurement?

8) What do you do when a fair value measurement is required by a standard, but the fair value is not easily determinable?

9) How do you apply the IFRS 13 fair value hierarchy?

10) What do you think are the most common methods to avoid the principles contained in IFRS 13?

Appendix II: List of interviewees

Respondent Number	Background	Length of interview (approx.)	Cumulative years of experience (approx.)	International experience in the field
Respondent 1	**Standard-setter**	**60 min**	**43**	**Yes**
Respondent 2	**Audit director**	**60 min**	**12**	**Yes**
Respondent 3	**Preparer (multinational)**	**40 min**	**12**	**Yes**
Respondent 4	**Preparer (multinational)**	**60 min**	**4**	**No**
Respondent 5	**Preparer (local company)**	**45 min**	**8**	**Yes**
Respondent 6	**Preparer (local company)**	**45 min**	**12**	**No**
Respondent 7	**Preparer (multinational)**	**30 min**	**8**	**Yes**
Respondent 8	**Preparer (multinational)**	**40 min**	**14**	**Yes**
Respondent 9	**Audit technical**	**50 min**	**4**	**Yes**
Respondent 10	**Academic (financial accounting)**	**30 min**	**40**	**No**

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