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Fair is foul, and foul is fair? Seeking legitimacy of the fair value measurement in Japan

Toshitake MIYAUCHI
Faculty of Management, Otemon Gakuin University

Masatsugu SANADA
Faculty of Management, Kyoto Tachibana University

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Toshitake Miyauchi
Faculty of Management, Otemon Gakuin University
2-1-15 Nishiai, Ibaraki, Osaka, Japan

Masatsugu Sanada
Faculty of Management, Kyoto Tachibana University
34 Yamada-cho Oyake Yamashina-ku, Kyoto, Japan

Abstract
This study aims to analyze how fair value accounting was taken for granted by preparers, users, and other stakeholders of financial statements in Japan, who relied on the epistemic commitment theory. Specifically, we identify stakeholder commitment to historical cost and fair value accounting in the process of establishing fair value accounting standards through a qualitative analysis of relevant documents and comment letters. As in previous studies, the results of the analysis highlight the diversity and variability of commitments within each stakeholder and between stakeholders. At the same time, this study reveals the variability in the knowledge template.

Keywords: Fair value accounting, Knowledge templates, Epistemic commitment, IFRS 13, Accounting Standards Board of Japan

1. Introduction

Since the 1990s, the use of fair value measurement (FVE) in financial accounting standards has been increasing (Ball et al., 2015; De Fond et al., 2018; Griffin, 2014). In this context, there have been changes in the industrial structure resulting from capital-market-oriented neoliberalism, which emphasizes free trade, deregulation, and globalization (Botzem, 2012; Durocher & Gendron 2014; Nölke & Perry, 2008; Power 2010). In particular, within these changes, accounting standards have been "a core instrument" and "a significant constitutive role" (Botzem, 2012, p. 26) in broadening and deepening the impact of globalized finance. Additionally, FVE and fair value accounting (FVA) as the "self-generated, even missionary nature of pressures to reform" (Power, 2010, p. 208) are closely related to the information needs of capital market actors and "to the rise of the IASB [International Accounting Standards Board], the dominance of professionals and experts, and to the formation of identity for those working in standardization" (Botzem, 2012, p. 15).

In Japan, the accounting standards for financial instruments have improved since the 1990s, and the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 30 *Accounting Standard for Fair Value Measurement* and ASBJ Guidance No. 30 *Implementation Guidance on Accounting Standard for Fair Value Measurement* (ASBJ No. 30: ASBJ, 2019b) in July 2019 as the Japanese version of IFRS 13 *Fair Value Measurement* (IASB, 2011) issued in May 2011. In other words, there was an 11-year gap. In addition, the Japanese standards were issued under a basic policy that accepted all IFRS 13 requirements. However, optional treatments were added to address the resulting implementation issues in Japan. Compared with IFRS 13, the scope of ASBJ No. 30 was limited to financial instruments and inventories held for trading. Unlike the Japanese revenue recognition standards (ASBJ No. 29), which were developed at around the same time and added (or carved in) some optional treatments to IFRS 15, ASBJ No. 30 excluded (or carved out) two accounting transactions from the scope of IFRS 13.

This study assumes that the revision of accounting standards for financial instruments in Japan since 2000, and in particular, the development of fair value measurement standards, has been carried out in the context of the convergence of International Financial Reporting Standards (IFRS) and Japanese Generally Accepted Accounting Principles (JGAAP), and is basically aimed at a shift from historical cost accounting (HCA) to FVA (or an extension of FVE). Stakeholders directly or indirectly involved in accounting standard setting have specific patterns of thinking about accounting and accounting standards; in other words, each stakeholder is committed to a different (or common) knowledge template, and thus, the degree of commitment has a different impact on accounting standard setting (Baudot, 2018; Durocher & Gendron, 2014).

This study analyzes how FVA, which initially provoked intense opposition, has been taken for granted and thus legitimized by preparers, users, and other stakeholders of financial statements in Japan. By drawing on the theory of epistemic commitment, it is argued that Japanese stakeholders have two opposing knowledge templates (i.e., beliefs or ideologies) concerning accounting: HCA and FVA. Thus, the empirical agenda of this study is to identify the different epistemic commitments of stakeholders to these templates by analyzing relevant documents and comment letters. Thus, it aims at a "critical approach" (Chua, 1986) that examines how a particular way of thinking gains legitimacy in a political process. Furthermore, the theoretical agenda of this study is to explore the relationship between stakeholders' different commitments and the dynamics of the legitimacy of accounting standards. This is because legitimacy research has shown that commitment to certain beliefs (ideologies and knowledge templates) confers legitimacy (Deephouse et al., 2017). To achieve this goal, we pose the following research questions:

> RQ1: Faced with the introduction of new fair value accounting standards, what commitments do Japanese stakeholders make to these two conflicting accounting templates?
>
> RQ2: What changes have occurred in the commitment to the accounting template?

Our results show a diversity of commitments among stakeholders, that is, different commitments for each stakeholder affiliation and among the same affiliation. The results also suggest variability in the commitments and templates to which commitments are made. This study shows that Japanese stakeholders' commitment to the FVA template is not necessarily a missionary commitment to a particular theory or principle and that they change their commitment opportunistically in response to environmental changes. Such flexibility provides the basis for accepting new accounting standards as a matter of course, and the diversity and variability of epistemic commitments contribute as reciprocal or opportunistic tools to establish the legitimacy of the new accounting standards.

2. Prior literature

2.1. Knowledge templates and commitment

Accounting standards developed by private sector standard setters do not always have a clear legal basis or enforcement provisions and therefore require social acceptance, that is, legitimacy, to require compliance with them. When discussing the legitimacy of accounting standards, many previous studies refer to the arguments of institutional theory in organizational studies (Sanada 2020). Organizational legitimacy refers to "the perceived appropriateness of an organisation to a social system in terms of rules, values, norms, and definitions" (Deephouse et al. 2017, 32). Focusing on the "evaluating audience" (Bitektine 2011) for legitimacy, legitimacy is brought about by "internal and external stakeholders who observe an organisation (or other subject) and make legitimacy assessments" (Deephouse et al. 2017, 36).

The legitimacy of accounting standards is provided by the recognition of their relevance within a social or economic system by standard setters, preparers, users of financial statements, and other interested parties. Stakeholders' social acceptance of accounting standards (accounting rules) is essential for the legitimacy of accounting standards. The primary requirements for the legitimacy of accounting standards are their effectiveness, problem-solving ability, and responsiveness of the standards themselves (output legitimacy). On the contrary, the participation of stakeholders in the standard-setting process (input legitimacy) or the existence of due process (throughput legitimacy), which has been discussed in relation to the organizational legitimacy of accounting standard setters, is also important. They shape the legitimacy of accounting standards complementarily and recursively.

A relatively new research trend, particularly regarding stakeholder participation in the accounting standard-setting process, exists; it focuses on stakeholders' commitment to a knowledge template (Baudot, 2018; Durocher & Gendron, 2014; Gipper, Lombardi, & Skinner, 2013; Warren and Wayne, 2021). Knowledge templates are concepts of personal epistemology, meaning assumptions about the nature of the world, how knowledge about it should be produced, and how it should be used in the context of providing professional services (Durocher & Gendron, 2014; Hofer, 2002). Durocher and Gendron (2014) analyzed the degree of epistemic commitment to historical cost and fair-value templates through interviews with Canadian accounting professionals. The results show the following: 1) a high degree of disparity in understanding the effectiveness of the templates, 2) normative changes in accounting standards do not necessarily lead to cognitive institutionalization at the practitioner's level of awareness, 3) abandonment of commitment and adherence in the face of normative changes, and 4) a significant lack of cognitive unity in the professional accounting community. By referring to Durocher and Gendron (2014), Baudot (2018) analyzed the cognitive commitment of each board member to fair value model in the FASB/IASB revenue recognition project and found that the stability of each member's personal commitment and the diversity of commitment depend on each board member's professional background. Similarly, Warren and Wayne (2021) used interviews with accountants to analyze how they understood and resisted FVA. The findings suggest that 1) there is a relationship between the level of commitment and resistance to accounting knowledge templates, and 2) resistance is not specific to certain groups of accountants but is both dynamic and systemic.

Building on these studies, our analysis extends to stakeholders involved in accounting standard setting to identify the diversity and variability of Japanese stakeholders' epistemic commitments to two opposing knowledge templates in accounting, namely "traditional" HCA and "innovative" FVA. The study seeks to reveal the diversity and variability of epistemic commitments to these two templates.

2.2. Two distinctive knowledge templates

Historical cost accounting (HCA) and fair value accounting (FVA) have been discussed as opposing accounting philosophies (or accounting systems) (Hodder, Hopkins, & Schipper 2013; Laux & Leuz 2010; Nissim &Penman 2008; Penman 2007).

> Fair value accounting and historical cost accounting are competing and mutually exclusive ways of conveying information. Their differences are by design, and that design must be understood if one is to appreciate what is gained or lost by adopting one system over the other (Nissim & Penman, 2008, p. 12).

Each accounting system is understood as "a design feature of a system that conveys information for valuation and stewardship in a very different way" (Nissim & Penman, 2008, p. 14). According to FVA or the asset-liability view, where the balance sheet is the basic financial statement, the recognition and measurement of assets and liabilities precede the determination of profit as the difference between net assets for the period, and the amounts of income and expenses as the residual concepts of assets and liabilities. In an accounting information system based on HCA or the revenue-expense view, in which the income statement is the basic financial statement, profit is determined as the difference between revenue and expenses after they have been determined, and assets and liabilities are determined as the residual items of revenue and expenses.

These accounting information systems inherently have two bottom lines: the (comprehensive) profit figure from the income statement and the net asset value or net book value from the balance sheet (the difference between the beginning and end of the period). However, in a clean surplus relationship[1], the determination of assets and liabilities necessarily determines the amount of revenue and expenses, and vice versa, as the difference between the profit figure and net book value of net assets is equal.

Some believe that historical cost or fair value is only one of the measurement attributes and is inherently separate from an accounting system[2]. This is true, it may be due to the confusion between ideal fair value accounting and mixed attribute accounting, which introduces fair value measurement (particularly in the measurement of financial assets) into the traditional accounting system. Thus, this study first attempts to present ideal historical cost accounting and ideal fair value accounting as templates. The following sections describe these two accounting systems in detail.

Ideal historical cost accounting (HCA)

The ideal HCA records property, plant, and equipment as well as most inventories and liabilities at historical costs, usually adjusted for depreciation after acquisition. Value is created in business by buying inputs (from suppliers), transforming them according to a business plan, and selling the resulting products (to customers) above costs (Penman, 2007). Therefore, HCA does not report the present value of possible outcomes from the business plan or the present value of individual assets. Rather, it reports progress against the plan, recognizing the value-added (income) only when it is confirmed by actual transactions in input and output markets (Nissim & Penman, 2008). The essence of HCA is that accounting information aims to calculate the returns on invested capital. The current earnings of the ideal HCA forecast future earnings to base a valuation, and the P/E ratio uses current earnings as a base and multiplies them according to the forecasted future earnings. Earnings do

[1] The clean-surplus relationship implies that the balance sheet and income statement are linked by the fact that the change in net assets in the balance sheet, excluding capital transactions, is equal to the amount of (comprehensive) income shown in the income statement.

[2] For example, Hodder, Hopkins and Schipper (2013) explains the following:

> ...because the issue of fair value measurement has been blended with other, unrelated accounting issues that sometimes are grouped under the heading "fair value accounting," we prefer to avoid the use of that term altogether. We take the view that fair value is a measurement basis that is used, to some extent, within some system of accounting, and is not itself a system of accounting (Hodder, Hopkins, & Schipper, 2013, p. 21).

not reflect shocks to value but shocks to trading in input and output markets, and earnings measure management's stewardship in arbitraging input and output markets, that is, creating value in markets (Penman, 2007)

Consequently, the HCA primarily focuses on income statements and the income concept is key. Revenue measures the value received from trading with customers, and expenses measure the value discarded in trading with suppliers, with the difference yielding earnings. While the realization principle dictates the recognition of revenue, the matching principle dictates the recognition of expenses.

On the contrary, the critics of HCA point out that it creates assets and liabilities, such as deferred costs and accrued income, in addition to actual assets and liabilities, when there is a timing difference between the income and expenses recognized and the cash received or paid (Nissim & Penman, 2008). Furthermore, they suggest that HCA is imperfect when accounting for shareholder value in the balance sheet, but it provides information for valuation and risk exposure in the income statement, and thus information for predicting future earnings. In other words, the HCA balance sheet is imperfect, and thus analysts focus on income statemenst.

Ideal fair value accounting (FVA)

The ideal FVA or asset-liability view, sees the balance sheet as the primary vehicle for conveying information to shareholders and recognizes assets and liabilities on the balance sheet at fair value, which is "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (SFAS 157, para. 5). With all assets and liabilities recorded at fair value on the balance sheet, the book value of equity represents the value of equity (price/book ratio = 1.0), while the income statement reports "economic income" because it is simply the change in value over a period. Therefore, an ideal FVA meets the objective of reporting to shareholders, that is, providing useful information for investment decisions (Nissim & Penman, 2008).

The ideal FVA produces a specific income measure as a residual, which may be inconsistent with the measure driven by HCA. The income statement under FVA then reports the changes in fair value as calculated in the balance sheet and is not driven by a separate income concept. In other words, earnings are changes in value, and as such, do not predict future changes in value, nor do they provide information about it. Instead, it measures periodic shocks to value and thus provides information about risk.

In summary, the ideal FVA or asset-liability view meets the objective of shareholder reporting by recognising assets and liabilities on the balance sheet at fair value (Nissim & Penman, 2008). In other words, the essence of FVA is that accounting information provides the value of the company or useful information for calculating the value of the company. Table 1 summarizes the comparison between the two templates.

[Insert Table 1]

2.3. Challenges of previous research and contributions of this study

The expansion of the application of FVA has brought to the fore several institutional challenge: 1) normative challenges (when to apply fair value accounting and the reality of the application of fair value in IFRS) (Nissim and Penman, 2008; Nobes, 2015), 2) procyclicality (Laux and Leuz, 2009) and downgrade paradoxes or counterintuitive results issues (Barth and Landsman, 1995; IASB, 2009b), and 3) the impact of the IASB/FASB split on the financial instruments accounting project (Camfferman and Zeff, 2015; Herz, 2016). These are important issues; however, they are not the subject of consideration in this study. Two general streams of accounting research exist: positive and/or empirical and critical. Positive and empirical research attempts to analyze the economic impact of FVA, and the basic question is whether FVA provides more useful (relevant and comparable) information to investors (Hitz 2007; Landsman 2007; Penman 2007). The basic problem of the critical study is that it attempts to decipher the origins of FVA from social and institutional perspectives, such as neoliberalism and professionalization. This study belongs to the latter family and shares this problem with these studies.

According to the notion that standard setters have a particular ideology or belief on which they base their decisions: accounting rules based on FVA are generally inconsistent with efficient contracts and do not reflect a set of economically efficient accounting rules. Therefore, the ideology is useful in explaining the clear orientation of standard setters towards FVA (Gipper, Lombardi, & Skinner, 2013; Watt, 2006). How precisely do the researchers explain this ideology? That is the financialization and professionalisation of the economy (Botzem 2012; Durocher & Gendron, 2014; Nölke & Perry, 2008; Power 2010).

In the context of financialization[3], the overall change in the configuration

[3] Tsumori (2002) offers the following explanation for the impact of financialisation on the balance sheet and income statement:

> A characteristic feature of current accounting is that, with the overall development of the financialisation of the economy, i.e., the expansion of fictitious capital, monetary assets that should originally belong to the monetary series and be subject to stock accounting have become "commodities" (capital goods) on the balance sheet, resulting in the inclusion of new "commodity series" items on the balance sheet. Monetary assets are thus transformed into items with both stock and flow characteristics, and this is further extended to liabilities and capital

of capitalist systems towards a higher level of capital market orientation and a concomitant emphasis on providing information to investors—global accounting standards are a core instrument for deepening and expanding "globalized finance" (Nölke, 2009). FVA, which seeks to express corporate value directly through the balance sheet, is closely related to the rise of IASB and plays "a constitutive role" (Botzem, 2012, p. 26) in the financialisation of the global economy (Botzem, 2012; Power, 2010). Furthermore, fair value as "a rationale for the presentation of corporate financial statements" (Botzem, 2012, p. 15) is closely linked to the dominance of professionals and experts and the formation of an identity for those working in standardisation (Power, 2010). This is because FVA is essential in tailoring IFRS to investors with a direct need for enterprise value. For example, the high degree of ambiguity in FVA (e.g., the concept of decision usefulness) allows different groups of actors to assert their interests as long as they maintain rationality in capital market-oriented and "technical" (Botzem, 2012, p. 91) decision making.

In summary, previous research has focused on theoretical studies and macro-debates on the development and diffusion of FVA. There are unresolved issues, such as the impact of macro developments, including professionalization and financial capitalization (the impact of macro social and economic changes), on the development of specific accounting standards in local settings and the perceptions (or ideologies) of individual stakeholders. Additionally, studies on epistemic commitment do not necessarily focus on all stakeholders. Therefore, this study focuses on individual stakeholders, including accountants, preparers, and users of financial information, researchers, and others.

3. Institutional background

Since the 1990s, FVA has progressed with the development of financial instrument accounting. In particular, from around 2000, full fair value accounting, including financial assets and liabilities, was focused upon. This trend could have extended to all assets and liabilities; however, this trend slowed down after the financial crisis of 2007–2008. In this context, IFRS 13 was issued in 2011 as an accounting standard for fair value accounting.

In Japan, accounting standards for financial instruments developed parallelly with this trend (or with a time lag of several years). However, during

items, so that the balance sheet now appears to be halfway to the income statement. As a result, "reporting financial performance" has taken on a special significance, and not only the traditional link between the income statement and the balance sheet is addressed, but also the link between the balance sheet or income statement and the statement of comprehensive income (p. 396).

this period, there was strong opposition, including from those who argued for a freeze on fair value accounting. Although the Japanese version of fair value accounting standards was published in 2019, there was an eight-year lag since the publication of IFRS 13.

The following section examines the institutional development of fair value accounting standards in the US, and the IASC/IASB and Japan.

3.1. Transnational setting

Prior to 2000: The IASC era

The US standards on financial instruments have always existed as a predecessor standard to IAS/IFRS. As early as May 1986, the FASB made financial instruments and off-balance sheet transactions the subject of a project. Since then, the following accounting standards have been established:

- SFAS 107 *Disclosures about Fair Value of Financial Instruments* December 1991.
- SFAS 115 *Accounting for Certain Investments in Debt and Equity Securities* May 1993.
- SFAS 133 *Accounting for Derivative Instruments and Hedging Activities* June 1998.
- SFAS 138 *Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133* June 2000.
- SFAS 156 *Accounting for Servicing of Financial Assets, an amendment of FASB Statement No. 140*, March 2006.
- SFAS 157 *Fair Value Measurements*, September 2006.
- SFAS 159 *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of FASB Statement No. 115*, February 2007.

The original definition of fair value under US GAAP meant exchange value in a broad sense (e.g. exit and entry values) (SFAS 107, para. 3), but the definition under SFAS 157 was changed to mean exit value (SFAS 157, para. 5).[4]

In 1989, the International Accounting Standards Committee (IASC) began a project with the Canadian Institute of Chartered Accountants (CICA) to develop a comprehensive standard for recognition, measurement, and disclosure of financial instruments. Exposure draft E40 *Financial Instruments*, published in September 1991, proposed that, as a "benchmark" mixed-

[4] While SFAS 157 defines fair value as "the amount at which the instrument could be exchanged in a certain transaction between willing parties, other than in a forced or liquidation sale" (paragraph 3), SFAS 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (paragraph 5).

measurement model, financial instruments for investment and financing purposes should be valued at cost, those for operating and investment purposes should be valued at fair value and those for hedging purposes should be matched to the profit or loss of the position being hedged, while as an "alternative" model, it was proposed that all financial instruments should be measured at fair value. Based on the extensive responses received, the proposals were reconsidered, and a re-exposure draft E48 *Financial Instruments* was issued in January 1994. The draft proposed to classify financial instruments into three categories based on management's intention to hold them, with those held for the long term or to maturity being valued at cost, those held for hedging purposes being recognized in profit or loss through changes in the fair value of the item being hedged, and others being valued at fair value. In short, both E40 and E48 proposed partial and optional fair value measurements[5].

In view of the critical response to E48, the IASC decided to phase the project and issued IAS 32 *Financial instruments: Disclosure and Presentation* in 1995 and IAS 39 *Financial Instruments: Recognition and Measurement* in 1998. These two standards have been followed by several implementation guidelines and amendments. These standards have become increasingly voluminous and complex.

Towards full fair value measurement

In addition to these developments, there has been a clamor, led by the FASB and IASC, and accountancy bodies in Anglo-Saxon countries, to explore the full fair value measurement of financial instruments. The following discussion papers attempt to introduce the full fair value measurement of financial instruments:

- Discussion Memorandum (DN28): *An analysis of issues related to recognition and measurement of financial instruments*, Financial Accounting Series, no. 109-A, FASB, November 1991 (FASB, 1991).
- *Accounting for financial assets and financial liabilities: A discussion paper issued for comment by the Steering Committee on Financial Instrument*s, IASC, March 1997 (IASC, 1997).
- *PRELIMJNARY VIEWS on major issues related to Reporting Financial*

[5] In Japan, despite general support for such a proposal by the Japanese Institute of Certified Public Accountants (JICPA), financial institutions, which had many non-performing loans and associated unrealised losses after the bubble burst, opposed it (Camfferman & Zeff, 2007).

> It appears that it was particularly in Japan that opposition to E40 had begun to develop at a late stage. Apart from the JICPA's [Japanese Institute of Certified Public Accountants: Authors] generally supportive letter, there had been no comment letters from Japan on E40. The exposure period had ended in May 1992, but as late as October 1993 the Japanese argued in WP1 that the interested parties in Japanese financial circles were 'highly frustrated' with E40 and should be given another opportunity to comment (p. 368).

instruments and Certain Related Assets and Liabilities at Fair Value, FASB, December 1999 (FASB, 1999).
- *Draft standards and basis of conclusions: Financial instruments and similar items*, Joint Working Group (JWG), December 2000 (JWG, 2000).

The JWG's paper set out four basic principles: fair value measurement, income recognition, recognition and derecognition, and disclosure. In particular, the fair value measurement principle proposed that all financial instruments should be measured at fair value on initial recognition and remeasured to fair value at each reporting date because "fair value is the most relevant measurement attribute for all financial instruments" (JWG, 2000, p. ii). In addition, income recognition principles propose that all gains and losses resulting from the measurement of financial instruments at fair value should be recognized in the income statement in the reporting period.

Revision of accounting standards for financial instruments since 2000
After the IASC was reorganized into the IASB in 2001, adding certain new disclosures about financial instruments required by IAS 32, the IASB issued IFRS 7 *Financial Instruments: Disclosure* in August 2005.

In 2006, the FASB and IASB issued the Memorandum of Understanding (MoU: IASB/FASB, 2006), which included the boards' commitment to full fair value accounting[6]. Based on these agreements, the IASB issued a Discussion Paper, *Reducing complexity in reporting financial instruments* (IASB, 2008), proposing an approach whereby financial instruments are measured at fair value in principle, with only those that meet the exceptions being measured at cost. However, the global financial crisis of 2007–2009 triggered a storm of criticism against the financial instruments standards (IAS 39 and IFRS 7), which prohibited the reclassification of financial assets. The IASB changed its policy: 1) short-term review (allowing changes in measurement standards due to changes in the classification of financial assets as held for a purpose, and providing guidance on the measurement of financial instruments when markets are not active(; 2) medium- to long-term review (replacing IAS 39 with IFRS 9, revised in phases in 2009, 2010 and 2013 through a phased approach, completed in July 2014). This policy change led to a return to the mixed-attribute approach, the twilight of fair value ideology (Götterdämmerung), or at least the shelving of the convergence between US GAAP and IFRS in the

[6] The MOU stipulates as follows:
As part of their Conceptual Framework project, the FASB and the IASB will be addressing issues relating to the range of measurement attributes (including cost and fair value) to enable a public discussion on these topics to begin in 2006 (p.2).

accounting standards for financial instruments.

IASB 13 Fair value measurement

Parallel to the revision of the accounting standards for financial instruments, the fair value measurement standards project was developed as part of the IASB/FASB Memorandum of Understanding (MOU). This project aims to provide guidance to entities on measuring the fair value of assets and liabilities when required by other IFRS standards. The IASB explains the need for such a standard as follows (IASB, 2006a):

> IFRSs require some assets, liabilities and equity instruments to be measured at fair value in some circumstances. However, guidance on measuring fair value is dispersed throughout IFRSs and is not always consistent. The IASB believes that establishing a single source of guidance for all fair value measurements required by IFRSs will both simplify IFRSs and improve the quality of fair value information included in financial reports (paragraph 6).

The FASB, which had pursued the project prior to the MOU, issued SFAS 157 *Fair Value Measurements* in September 2006. SFAS 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (paragraph 5). This definition differs from the IASB standards at this point. This point was also addressed in the Discussion Papers published in November 2006 (IASB, 2006a & 2006b). Q3 of DP Part 2 asked whether an exit value (exit price measurement objective) should be disclosed as it is inconsistent with the definition of assets and liabilities in the Conceptual Framework.

As a result of many comments received, in the Exposure Draft ED/2009/5 *Fair Value Measurements* (IASB, 2009a) published in May 2009, the IASB provides a definition of fair value that is almost verebatim similar to SFAS 157 defining fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" (IASB, 2009a, para. 1). Finally, the IASB issued IFRS 13 *Fair Value Measurement* in May 2011. IFRS 13 provides the definition of fair value, fair value hierarchy (level 1 to 3 inputs), measurement and disclosure requirements of fair value. However, it does not provide specific ideas on (1) the subjects and situations in which fair value measurement should be applied, (2) the appropriate relationship between fair value assessment and profit measurement, and (3) the suitable relationship between the information in the body of the financial statements and the notes and other information.

3.2. Japan's experience

Financial instruments standards

Prior to 2000, Japanese GAAP consisted of accounting principles (i.e., Business Accounting Principles) and accounting standards (i.e., Opinions) issued by the Business Accounting Council (BAC), an advisory body to the Ministry of Finance (now the Financial Services Agency), and interpretation and implementation guidance issued by the JICPA (Sanada & Tokuga, 2020). In July 1996, the BAC began to consider accounting standards for financial instruments and issued a Discussion Paper (BAC, 1997) in June 1997 and an Exposure Draft (BAC, 1998) in June 1998. The issues raised in these documents are as follows: 1) under the circumstances of increased investment activity in Japan's securities markets, the integration and comparability of corporate information from an international perspective, or international harmonization of Japanese accounting standards, are important; and 2) it is appropriate to establish a method of treatment according to the purpose of holding, based on fair value, rather than to introduce full mark-to-market valuation. In response to the feedbacks, in 1999, the BAC issued *Accounting Standards for Financial Instruments* and related Opinions (BAC, 1999), a comprehensive set of accounting standards for the treatment of financial instruments, incorporating concepts from US GAAP and IAS, requiring extensive mark-to-market valuation. The JICPA issued *Practical Guidelines* in January 2000 (JICPA, 2000).

The ASBJ and its founding body, the Financial Accounting Standards Foundation (FASF), were established in 2001 by the founders of ten business representative organizations (Sanada & Tokuga, 2000). The ASBJ revised the former Accounting Standard for Financial Instruments and issued ASBJ Statement No. 10 *Accounting Standard for Financial Instruments* in 2006. In March 2008, the ASBJ again revised Statement No. 10 to improve the disclosure of matters relating to the status of financial instruments and their fair value, in light of the increasing demand for information on the fair value of financial instruments. Following the progress of the IASB/FASB project on fair value accounting standards, the ASBJ began to consider fair value accounting standards in earnest.

Fair value accounting standards

In August 2009, the ASBJ issued a discussion document: *Discussion Paper on Fair Value Measurement and its Disclosure*. This was in response to the publication of the IASB's Exposure Draft (ED/2009/5: IASB, 2009a) and to seek Japan's views on issues related to the definition, measurement, and disclosure of fair value. In particular, the Japanese concept of market value (fair value) allows for an entry and exit price, whereas SFAS 157 and the IASB's Exposure Draft unify the two into an exit price. Therefore, the pros and cons of unifying into an exit value and introducing a fair value hierarchy were major issues. Referring to the feedback on this paper, the ASBJ submitted comments to the IASB's Exposure Draft in September 2009, stating that it had no objection to the definition but that an entry price should also be used. As early as July 2010, the ASBJ issued for public comment the *Exposure Draft of Accounting Standard for Fair Value Measurements and Disclosures* (Exposure Draft of Statement, No.43) and the *Exposure Draft of Implementation Guidance on Accounting Standard for Fair Value Measurements and Disclosures* (Exposure Draft of Guidance, No.38) (IASB, 2010). However, it was not finalized, despite the fact that the objective was to define the content of fair value disclosures and not to deal with the scope of assets or liabilities to be measured at fair value, which was a controversial issue.

Under these circumstances, the project was suspended until 2019. However, there were three changes between 2010 and 2019 First, there was an increase in the number of voluntary IFRS users (from three at the end of December 2010 to 199 at the end of December 2018: FSA, 2023). Second, the BAC published a report on the use of IFRS (The Present Policy: BAC, 2013) and designated a de facto freeze on mandatory IFRS adoption and fixation on the coexistence of the four accounting standards. Finally, and most importantly, we can observe a change in the ASBJ's IFRS strategy. This is a change in strategy from promoting the reduction of differences between IFRS and Japanese GAAP to a strategy of strict verbatim adoption of the IFRS standard, while allowing some flexibility in the ASBJ Statement, as long as it does not affect the international comparability of financial statements. The ASBJ, as a second attempt, issued for public comment the Exposure Draft *of Accounting Standard for Fair Value Measurements* (Exposure Draft of Statement, No.63) and the *Exposure Draft of Implementation Guidance on Accounting Standard for Fair Value Measurements* (Exposure Draft of Guidance, No.68) (IASB, 2019a) and finally issued ASBJ Statement No. 30 *Accounting Standard for Fair Value Measurement*, ASBJ Guidance No. 31 *Implementation Guidance on Accounting Standard for Fair Value Measurement* (ASBJ, 2019b) and related revision standards in July 2019.

The basic principle of Statement No. 30 is that while the ASBJ has adopted IFRS 13 verbatim, it has also allowed some flexibility in the standards. In terms of scope, IFRS 13 applies where fair value measurements or disclosures are required, with some exceptions, whereas Statement No. 30 applies only to financial instruments and inventories held for trading. In summary, there are no significant differences between IFRS 13 and Statement No. 30 and Guidance No. 31 in terms of the definition of fair value, units of measurement, and methods of measurement (fair value hierarchy). However, it should be noted that the new Japanese standards do not use the term "*Kosei Kachi*", which is the literal translation of fair value in Japanese, but use the term "*Jika*", which simply means market value. This is consistent with the wording of other standards: however, fair value was used in the 2011 Exposure Draft (ED 43), which has been changed in the 2019 Exposure Draft (ED 63).

Other specific effects of implementing new accounting standards include calculating the market value of cross-shareholdings (available-for-sale securities). Instead of using the average market price during the month prior to the end of the period, which was previously allowed as an exception, the new standards required the market price at the end of the period to be used. Second, certain bonds and derivatives for which determining fair values was difficult were measured at cost, whereas the new standards changed this to a fair value. Finally, the disclosure of fair value has been more detailed, that is, if the "assumptions" used to calculate fair value were level 3, the new standards require a detailed description of the "assumptions" used in the calculation.

4. Research methods

4.1. Research questions

Following the publication of the IASB's Exposure Draft on Fair Value Measurement, the development of a standard for fair value measurement took shape in Japan. An Exposure Draft was published in 2010, but it did not become a final standard, although the two projects proceeded almost simultaneously, and IFRS 13 was published in 2011. However, the 2019 Exposure Draft became the final standard. During this period, several exogenous changes occurred (changes in the institutional and economic environment changes). In this context, the attitudes and beliefs of each stakeholder towards the FVA are expected to change. Therefore, the following research questions are posed in this study.

> RQ1: Faced with the introduction of new fair value accounting standards, what commitments do Japanese stakeholders make to these two conflicting accounting templates?

The questions asked here include 1) the introduction of exogenous accounting standard(s) and the importance of localization in Japan, and 2) the nature of the conflict between the two accounting ideologies or knowledge templates, that is, the diversity of commitments. However, another question remains.

> RQ2: What changes have occurred in the commitment to the accounting template?

Here, we are concerned with the significance of the difference between the year of publication of IFRS 13 (2011) and ASBJ Statement No. 30 (2019) in the process of standardization and legitimisation of FVA, that is, the variable nature of the commitment.

Given the above two research questions, more specifically, who or which organizations are in favor, in the middle, or against the new standard, suggesting a direction towards greater fair value measurement? Have there been changes in the commitment of these organisations? What happened between the 2010 Exposure Draft (ED 43) and 2019 Exposure Draft (ED 63)? Furthermore, what are the reasons for the changes, if any? This analysis will be pursued in depth with regard to the above points.

4.2. Data and analysis

Regarding the development of fair value accounting standards, the following six documents were issued by the ASBJ, each of which sought the views of various stakeholders by inviting comment letters. The data were narrowed down through a critical reading of the documents and comment letters by two coders who noted that ED19 was for a revision of accounting for financial instruments, whereas PSEC28 only sought views on practical responses during the financial crisis. IGED 71 also seeks views on additional issues (disclosures relating to investment funds) in relation to standards that have already been developed. Therefore, we decided to exclude the comment letters from these three documents in the content analysis. Therefore, the analysis of comment letters covers 56 letters submitted to FPFVM, ED43, and ED63.

[Insert Table 2 & 3]

As a premise for our analysis, we assume that the post-2000 revision of accounting standards for financial instruments, and in particular the development of fair value measurement standards as part of the convergence of IFRS and Japanese GAAP, are fundamentally oriented towards a transition from HCA to FVA (i.e., an extension of FV measurement within the mixed attribute approach). We assume that this does not mean a full transition from the ideal HCA to the ideal FVA (or full fair value accounting). The first step in our analysis was a critical reading of the relevant documents. In the previous section, we conducted a document analysis of IFRS 13 and the Exposure Draft, as well as the ASBJ standard and Exposure Draft, and identified the differences between them.

Our main analysis was a content analysis of the comment letters. Specifically, we categorized commitments to the FVA template into (i) AP: *active proponents*, (ii) FA: *flexible adherents* and (iii) D: *dissidents*. The Comment Letter is essentially a response to questions from the ASBJ and does not provide a clear indication of commitments regarding the two templates (FVA and HCA). Thus, the above classification is based solely on the subjective judgement of the coders. Therefore, we took the following three steps to make subjective judgements somewhat objective and convincing: (1) coders were classified as being for, against or neutral on the issues and exposure drafts; (2) each coder was further classified as AP, FA or D on the FVA templates; and (3) the opinions of the two coders were reconciled. Again, the meaning of commitment to the FVA template here is only to determine commitment to the direction of FVA expansion, not fair value as a measurement attribute or opposition to FV measurement, as some degree of fair value measurement has been permitted under ASBJ standards since 2000. The details of the three categories are as follows[7].

> AP: *Active proponents* are comments expressing support for the direction of scope extension, calculation methods (use of Level 3 inputs), and disclosures of fair value.
>
> FA: *Flexible Adherents* are comments that do not actively support but follow the direction of scope extension, calculation methods, and disclosures of fair value.
>
> D: *Dissenters* disagree or take a different view of the direction of the scope, calculation methods and extended disclosures of fair value.
>
> -: Comments merely asking questions or expressing their own opinions that are not relevant to the issue of expanding FVA.

Furthermore, in terms of the rhetoric used to make the arguments, we categorized the comments into C: *conceptually based arguments*, SR: *self-referential arguments*, and B: *both arguments*.

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[7] If the discussion is based on the premise of fair value accounting (as it should be), the comment is rated FA, while comments on individual and specific issues that are not directly related to FVA and do not indicate "with or without" a commitment to fair value accounting are rated - (minus, not rated). In addition, the term "dissident" is used here in the sense of having a different opinion, view or idea, rather than as a direct opponent.

5. Findings

5.1. Overall results

We first eliminated nine of the 56 comment letters originally included in the analysis that were mere questions or did not appear to have a clear intent to address fair value measurement. This left 47 letters for the final analysis.

[Insert Table 4]

The results of the analysis showed the following general trends. First, the number of *active proponents* was low. In particular, zero was observed in the DP and ED43 phases. However, there are a large number of *flexible adherents* (intermediaries and followers). This is as expected because many commentators are against the further expansion of FVA (i.e., orientation towards full fair value accounting) but follow the current situation regarding FVM, particularly for financial instruments.

Second, the interests of the auditors and financial institutions, including their associations, should be considered. At the same time, it should be noted that the opinions of financial institutions as a whole are not uniform but rather diverse. In addition, the level of interest from preparers and users was low compared to the usual submission of comments[8]. Financial institutions are usually counted as one of two groups; however, as the submission of comments from financial institutions was noticeable from the stage of organizing the comments, they were separately. Owing to the characteristics of the FVM, it is possible that there was a lack of interest from representative Japanese companies, especially those in the manufacturing sector.

Third, there is no clear division for or against, depending on the originating organisation, and that opinions are divided even among the same affiliated organizations, that is, a diversity of commitments. However, a closer look reveals a neutral but rather strong tendency in favor of auditors, a rather strong tendency in favor of preparers, and a neutral or against financial institutions (both on behalf of their clients and themselves as preparers).

Finally, regarding rhetoric, auditors tend to use conceptual arguments, whereas preparers and financial institutions tend to use self-referential arguments. It can also be seen that, in general, they tend to use principled arguments when expressing a favorable opinion, whereas they tend to use self-

[8] Sanada & Tokuga (2015), who documented the total number of comment letters received on ASBJ published documents from 2001 to 2015, found that the percentages of preparers, users, and auditors were 31.9%, 22.5%, and 31.6%, respectively (p. 54).

referential arguments when expressing an unfavorable opinion. See **Appendix** for the detailed analysis of the comment letters.

5.2. Comparative analysis between comment letters posted to ED43 and ED63

Here, we provide a comparative analysis of the comments received on ED 43 (including the DPFVM) and those received on ED 63. The reason for this is that there are some significant differences between ED 43 and ED 63 in terms of the basic policy, the issue of the Japanese language fair value notation, and scope, as follows. First, the basic principle in ED 43 was to adopt all of the provisions of IFRS 13, whereas the general policy in ED 63 was to adopt substantially all of the provisions of IFRS 13; however, it also clearly states that the ASBJ should "take into account the practices followed in Japan and other factors and determine different treatments for individual items to the extent that comparability between financial statements is not materially affected"(paragraph 23). Second, although ED 43 uses the term "*Kosei Kachi,*" which is the literal translation of fair value and has the nuance of being fair and correct in Japanese, ED 63 uses the term "*Jika,"* which simply means market value rather than "*Kosei Kachi*." Finally, ED 63 limits the scope of financial instruments and inventories held for trading, with the exception of investment property held for rental or investment income (or rental property) and other items to which IFRS 13 applies. In this sense, there was a direction towards full fair value in ED 43, but such a direction is not necessarily explicit in ED 63. We now examine each attribute in detail.

With regard to auditors, it can be seen that there was a shift from negative support at the time of the DPFVM and ED 43 (i.e,. in 2010) to positive support at ED 63 (i.e. in 2019). This suggests that Japanese accountants (audit firms) may have been reluctant to apply for full FVA. For example, comment letters on ED 43 mention the importance of ensuring consistency with IFRS in the definition, measurement, and disclosure requirements for fair value in Japanese GAAP from the perspective of the international convergence of accounting standards (Ernst & Young ShinNihon: DPFVMCL06; PricewaterhouseCoopers Arata: DPFVMCL11). However, concerns have been raised regarding the use of the Japanese term "*Kosei Kachi*" (Deloitte Touche Tohmatsu: ED43CL07; Ernst & Young ShinNihon: ED43CL12). The JICPA's comments also emphasize the need for detailed and specific guidance tailored to the Japanese trading conditions and seek clarification as to whether the new Japanese standard is intended to be fully identical to IFRS 13 or whether there are differences (exemptions) that account for circumstances and thinking specific to Japan. (JICPA: DPFVMCL09). Comments on ED 63 included views on "scope," "fair value method," and "other treatment" (JICPA: ED63CL01) and the need for conceptual clarification (KPMG AZSA LLC: ED63CL14), while only Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu requested that the scope be extended to include assets and liabilities other than financial instruments in the future (ED63CL12).

It can be seen that, overall, the preparers of financial reports were not always active in disseminating their opinions. In terms of the content of their comments, they basically shifted from opposition to passive acceptance. In particular, Keidanren (the Japan Business Federation), a representative Japanese business organization, in its response to the DP only requested that the cost-benefit of the content of disclosures be fully considered so as not to impose excessive practical burdens on preparers (DPFVMCL08). However, the commentary on ED 43 clearly opposes the direction of fair value expansion, stating that the scope of assets and liabilities measured at fair value should be limited to those assets and liabilities for which there is an observable market (ED 43CL09). However, the commentary on ED63 changes to a basic consensus (ED63CL19). Of note to preparers are the opinion of real estate agents. They believe that, in principle, fair value should not be applied to investment property (Japan Association of Real Estate Appraisers (JAREA): ED43CL05; The Association for Real Estate Securitization (ARES): ED43CL06), and as noted above, the final ASBJ standard excludes rental properties.

Among financial institutions, opinions differ between the insurance industry, such as the General Insurance Association of Japan (GiAJ), the Life Insurance Association of Japan (LIAJ), securities firms, and banks. In the banking sector, there is also a marked difference in the opinion between megabanks and regional banks, and credit unions, including their umbrella organizations; however, overall, there has been a shift from negative to passive support. However, the Second Association of Regional Banks and the National Association of Shinkin Banks, representative organizations of regional and small and medium-sized financial institutions, continued to express strong opposition in their comments on ED63. For example, in its comments on ED 63, the GiAJ expressed active support for the basic policy of improving international comparability (ED 63CL02). Some respondents, while expressing support for the policy, expressed concerns from a cost-benefit perspective (LIAJ: ED63CL10) and from an administrative perspective (The Investment Trusts Association, Japan (JITA): ED63CL16) or business development needs (National Central Society of Credit Cooperatives: ED63CL18).

Financial institutions that expressed opposition cited concerns about increased practical burdens (Japanese Bankers Association (JBA): DPFVMCL05) and the need for more detailed guidance (Japan Venture Capital Association (JVCA): DPFVMCL07) as reasons for their opposition) as reasons for their opposition. In addition, there is a need for sufficient preparation time on the timing of application (The Second Association of Regional Banks: ED63CL11) and the need to consider how to implement according to organizational and corporate attributes (The Regional Banks Association of Japan: ED63CL17).

There has been a shift from a reluctant permissive camp to one that actively expresses support (Japan Securities Dealers Association (JSDA): ED63CL07; The Securities Analysts Association of Japan (SAAJ): ED63CL09). They agree with the proposal from the perspective of harmonization with international accounting standards but request flexibility in the scope of disclosure. The negative comments on the Exposure Draft from the real estate industry disappeared because of the curve-out of rental properties (Japan Association of Real Estate Appraisers (JAREA): ED43CL05; Japan Real Estate Institute (JREI): ED43CL17).

The above results suggest that at the ED43 stage, users and auditors who could be expected to be active proponents of FVA are rather cautious in their overall stance. In addition, some preparers, particularly in the property sector, have argued in principle that fair value should not be applied to investment property, and perhaps as a result of the inclusion of such views, it has been excluded in the Exposure Draft and the final ASBJ standard. At the ED63 stage, the question itself asks whether the respondents agree with the draft, making it difficult to obtain a clear picture of the status of commitment in relation to FVA. Therefore, the possibility that all respondents were flexible adherents cannot be ruled out at this stage. This may be due to the fact that it has been several years since the introduction of IFRS 13, which may have improved stakeholders' understanding of the standard, and at the same time, a certain tolerance towards FVA may have been established after almost 10 years since the start of voluntary IFRS adoption in Japan.

It should be noted that banks (especially regional banks) are reluctant to adopt FVA. Comments indicate that they are opposed to extending the application of FVA at the entity level (to unlisted companies, cooperatives, etc.) from the perspective of administrative burden and related cost-benefit considerations and have requested that the application be considered according to organizational and entity characteristics.

6. Discussion and conclusion

6.1. Variety and variability of commitments

Using the theory of epistemic commitment, this study analyzed how FVA, which initially provoked strong opposition, was legitimized by preparers, users, and other stakeholders of financial statements in Japan. To achieve this aim, we posed two research questions.

The first research question asked what commitment each stakeholder made to the knowledge templates of an ideal FVA (or ideal HCT) when setting new fair value accounting standards. The results of our content analysis suggest diverse commitments among stakeholders, that is, different commitments for each stakeholder affiliation as well as different commitments among the same affiliation.

Regarding the diversity of stakeholder commitments, the differences between auditors and preparers and financial institutions are significant. In our view, this is not due to a high degree of "disparity" (Durocher & Gendron, 2014) in the understanding of the template, but rather due to "procedural and operational" (Warren & Wayne, 2021) considerations of direct interest or cost-benefit. As a factor contributing to the diversity of commitment within the same affiliation, this is in line with the previous research showing "a relatively low level of cognitive unity within the accounting community of accounting practitioners" (Durocher & Gendron 2014, p. 650). However, regarding differences between auditors, this also suggests the procedural and operational nature of the commitment, as there are differences between the Big 4 audit firms and individual auditors, as well as the industry association, the JICPA. However, with respect to preparers and financial institutions, industry associations are better positioned to consolidate or represent their views, suggesting that they may play an institutional entrepreneurial role in leading epistemic commitments.

The second research question asked about changes in commitment to accounting templates. The results of our content analysis suggest variability in the commitments and templates to which commitments are made. Regarding the variability of commitment, the first factor could be changes in commitment owing to changes in the environment. Indeed, the number of Japanese companies that have already adopted IFRS 13 in their consolidated financial statements increased significantly in 2019 compared to 2010 because of the expansion of voluntary IFRS adopters. Therefore, resistance to the new IFRS 13 standard (i.e., cognitive bias and technical resistance) may have decreased. Second, the content of the exposure draft changed. From ED 43 to ED 63, the scope of application was significantly reduced and now essentially covers financial instruments. In this sense, ED 63 is not a draft standard that applies all the required FVM, but a draft standard that prescribes the FVM of financial instruments.

Our analysis suggests a variable nature of the knowledge templates in terms of changes in the content of the Exposure Draft. In fact, at the time of

ED 43, the meaning of FVA was to some extent aimed at achieving the ideal FVA (or full fair value accounting), specifying that only inventories and stock options should be excluded. In this sense, it had the potential to extend fair value measurement beyond financial instruments to other assets and liabilities. However, the FVA as of ED 63 limited the scope of fair value to financial instruments (and inventories held for trading), that is, current assets, which at least negated the realistic possibility of a full FVA in Japan and indicated that the template itself has changed. In this sense, we point to the possibility of the future disappearance of the ideal type of FVA or the unification of the two accounting templates. This result is somewhat different from those of the previous studies, which have shown the "adherence" (Durocher & Gendron, 2014) and "stability" (Baudot, 2018) of the commitment.

In the context of setting new accounting standards, each stakeholder is an important actor in the institutional work of establishing and maintaining the legitimacy of the new accounting standards. As in previous studies, our analysis shows that stakeholders make different commitments to the FVA template based on their own factors, such as different interests and cost-benefit structures. However, this commitment changes as these unique and general environmental factors change. Commitment to a particular template may encourage or discourage the adoption of new accounting standards. However, this study shows that for Japanese stakeholders, commitment to the FVA template is not necessarily missionary to a particular theory or principle, and that they change their commitment opportunistically in response to environmental changes. Such flexibility in their commitments provides the basis for accepting, or at least reducing resistance to, new accounting standards as a matter of course. At the same time, the study suggests that Japanese stakeholders perceive the templates themselves, to which the commitments are subject, as variables rather than invariants. This study shows that these two variable types of epistemic commitment act as reciprocal or opportunistic tools to establish the legitimacy of new accounting standards.

6.2. Concluding remarks

This study analyzes the extent to which preparers, users, and other stakeholders of financial statements in Japan have taken FVA for granted. We sought to identify stakeholders' commitment to HCA and FVA in establishing fair value accounting standards through a qualitative analysis of relevant documents and comment letters. Similar to previous studies, our findings show the diversity and variability of commitment within and between stakeholders. At the same time, this study revealed variability in the knowledge template.

This study contributes to the existing literature in two ways. First, it provides useful insights into the diversity and variability of commitments to accounting templates (which can also be assumed to be a particular ideology) and the analysis of the nature of stakeholder participation (input legitimacy) in legitimacy studies. Second, the variable nature of the accounting template itself—the possibility of the disappearance or unification of two accounting templates (mutuality/coevolution) —suggests the essential universality of the mixed-attribute approach as a practical solution in accounting standards. In other words, the ideological type exists only in an ideal situation, and in the real world, individual accounting standards (or a set of accounting standards) exist only within a spectrum, with the historical cost model and fair value model at the two ends. Once again, it is clear that they can only be mixed attribute models, representing differences in degree within that spectrum.

The study suggests the impact of the introduction of exogenous financial instruments accounting and localization in Japan by showing the conflict between the two accounting templates in Japan. This provides an analytical framework for potential conflicts and their resolution in the introduction of new accounting standards in certain jurisdictions (e.g. non-adopting countries), as well as presenting specific cases with important implications.

Despite the above contributions, this study has the following limitations. It only discursively captures the relationship between commitment (or changes in commitment), the specific behavior of each stakeholder actor, and institutional work. Therefore, studies involving more theoretical reflections and empirical data are required. In addition, although the relationship between comment letters and final standards has been clarified, the question of how comment letters influence the decision-making of standard setters and their members has not been clearly answered. Further empirical work, including examples from other accounting standard setters, is required.

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Table 1. Summary of the comparison between ideal types of two accounting templates

	Ideal historical cost accounting (HCA)	**Ideal fair value accounting (FVA)**
Definition	"…Historical cost accounting views value as generated in business by purchasing inputs (from suppliers), transforming them according to a business plan, and selling the consequent product (to customers) over cost" (Penman, 2007, p. 37).	"…fair value accounting conveys information about equity value and managements' stewardship by stating all assets and liabilities on the balance sheet as their value to shareholders" (Penman, 2007, p. 36).
Basic measurement attributes	Historical cost	Current market value, net realizable value, and present value of future cash flows
Main concepts and principles	Income and/or earnings; realization principle; matching principle	Fair value; comprehensive income
Basic financial statements	Income statement	Balance sheet
Basic approach to profit calculation	The revenue-expenses view (Profit and loss method)	The assets-liabilities view (Property method)
Features	• The income statement is the primary vehicle for conveying information about value to shareholders, not the balance sheet. • With plant, and equipment and most inventories and liabilities recorded on the balance sheets at historical cost, the price/book ratio is typically not equal to 1.0. • Historical cost earnings report the value-	• The balance sheet becomes the primary vehicle for communicating information to shareholders. • With all assets and liabilities recorded at fair value on the balance sheet, the book value of equity shows the value of equity (the price/book ratio = 1.0). • The income statement reports 'economic income' because it is

	added buying inputs at one price, transforming them according to a business model, and selling them at another price. • Unlike FVA, current earnings forecast future earnings on which to base a valuation, and the P/E ratio takes current earnings as a base and multiplies them according to the forecast of future earnings. • Earnings do not reflect shocks to value but shocks to trading in input and output markets. • Earnings measure management's stewardship in arbitraging input and output markets, i.e. creating value in markets (Penman, 2007, p. 36).	simply the change in value over a period. • Current changes in value do not predict future changes in value. While earnings cannot predict future earnings, the balance sheet provides the valuation. • Unexpected earnings, as a shock to value, tell us about the risk of the equity investment. The volatility of earnings tells us about the value at risk. The price/earnings ratio is therefore a realisation of the value at risk. • Earnings reports management's stewardship in creating value for shareholders (Penman, 2007, p. 36).
Main purpose of accounting information	• Providing profit figures as a periodic allocation of permanent earnings • Fulfilling stewardship responsibilities	• Providing useful information for investors' decision making • Providing the basis of valuation or the value (itself)
Qualitative characteristics	reliability, objectivity, verifiability	relevance, predictability
Practical difficulties	Recognition and measurement issues relating to revenue and expense items	Recognition and measurement issues related to the fair value of assets and liabilities

Source: Authours.

Table 2. Related documents issued by the ASBJ

Date	**Documents**	**Due date**
2007 20 July	Exposure Draft of Statement, No.19 *Exposure Draft of Proposed Amendments to Accounting Standard for Financial Instrument*s and Exposure Draft of Guidance, No.23 *Exposure Draft of Proposed Implementation Guidance on Disclosures about Fair Value of Financial Instruments* (ED 19: ASBJ, 2007).	2007 3 September
2008 16 October	Exposure Draft of PITF, No.28 *Exposure Draft of Practical Solution on Measurement of Fair Value of Financial Assets* (PSEC 28: ASBJ, 2008).	2008 23 October
2009 7 August	*Discussion Paper on Fair Value Measurement and its Disclosure* (DPFVM: ASBJ 2009)	2009 5 October
2010 9 July	Exposure Draft of Statement, No.43 *Exposure Draft of Accounting Standard for Fair Value Measurements and Disclosures* and Exposure Draft of Guidance, No.38 *Exposure Draft of Implementation Guidance on Accounting Standard for Fair Value Measurements and Disclosure*s (ED 43: ASBJ, 2010).	2010 10 September
2019 18 January	Exposure Draft of Statement, No.63 *Exposure Draft of Accounting Standard for Fair Value Measurements* and Exposure Draft of Guidance, No.68 *Exposure Draft of Guidance on Accounting Standard for Fair Value Measurements* (ED 63: ASBJ,2019a).	2019 5 April
2021 18 January	Exposure Draft of Guidance, No. 71 *Proposed Amendments to ASBJ Guidance No. 31, Guidance on Accounting Standard for Fair Value Measurement* (IGED 71: ASBJ, 2021).	2021 18 March

Source: Authors.

Table 3. General distributions of the comment letters

	ED 19	PSED 28	EPFVM	ED 43	ED 63	IGED 71	Total	%
Auditors	3	5	5	6	6	5	30	29.4
Preparers (industry group)	3	1	2	3	1	1	11	10.8
Prepares	2	0	0	0	1	0	3	2.9
Financial institutions (industry group)	2	4	3	2	10	4	25	24.5
Financial institutions	0	3	0	3	1	0	7	6.9
Users (industry group)	1	0	0	2	1	1	5	4.9
Users	0	3	1	1	2	2	9	8.8
Others	1	5	0	3	3	0	12	11.8
Total	12	21	11	20	25	13	102	100.0

Source: Authors

Table 4a. The differential position to the documents

	DPFVM	ED 43	ED 63	Total
Active Proponents (AP)	0	0	8	8
Flexible Adherents (FA)	7	12	8	27
Dissidents (D)	3	7	2	12
Total	10	19	18	47

Source: Authors

Table 4b The differential position by orgaisational attributes

	AP	FA	D	Total
Auditors	3	10	0	13
Preparers (industry group)	0	2	4	6
Prepares	0	0	0	0
Financial institutions (industry group)	2	6	5	13
Financial institutions	0	2	0	2
Users (industryl group)	1	1	1	3
Users	1	3	0	4
Others	1	3	2	6
Total	8	27	12	47

AP: *Active proponents*
FA: *Flexible Adherents*
D: *Dissenters*

Source: Authors

Table 4c The differential rhetoric to the documents

	DPFVM	ED 43	ED 63	Total
Conceptual Based Arguments (C)	1	6	4	11
Self-referential Arguments (SR)	3	8	2	13
Both Arguments (B)	6	5	12	23
Total	10	19	18	47

Source: Authors

Table 4d The differential rhetoric by organisational attributes

	C	SR	B	Total
Auditors	5	0	8	13
Preparers (industry group)	0	3	3	6
Prepares	0	0	0	0
Financial institutions (industry group)	1	5	7	13
Financial institutions	0	2	0	2
Users (industryl group)	0	1	2	3
Users	1	1	2	4
Others	4	1	1	6
Total	11	13	23	47

C: *conceptually based arguments*
SR: *self-referential arguments*
B: *both arguments*

Source: Authors

Appendix

Comment letters to the ASBJ's documents

CL#	Name	Affiliation	Position	Rhetoric
DPFVMCL01	Individual	Auditors (individuals)	-	-
DPFVMCL02	Japan Foreign Trade Council (JFTC)	Preparers (industry group)	FA	SR
DPFVMCL03	The Life Insurance Association of Japan (LIAJ)	Financial institutions (industry group)	FA	B
DPFVMCL04	KPMG AZSA LLC	Auditors	FA	B
DPFVMCL05	Japanese Bankers Association (JBA)	Financial institutions (industry group))	D	B
DPFVMCL06	Ernst & Young ShinNihon LL	Auditors	FA	C
DPFVMCL07	Japan Venture Capital Association (JVCA)	Financial institutions (industry group))	D	SR
DPFVMCL08	Keidanren (Japan Business Federation)	Preparers (industry group)	D	B
DPFVMCL09	The Japanese Institute of Certified Public Accountants (JICPA)	Auditors (industry group)	FA	B
DPFVMCL10	Japan Real Estate Institute (JREI)	Users	FA	SR
DPFVMCL11	PricewaterhouseCoopers Arata LLC	Auditors	FA	B
ED43CL01	The early morning workshop on accounting standards for fair value measurement and disclosure	Others	D	C
ED43CL02	Individual	Auditors (individuals)	-	-
ED43CL03	Pronexus Financial Disclosure Institute (PFDI)	Others	FA	C
ED43CL04	Individual	Others	FA	C
ED43CL05	Japan Association of Real Estate Appraisers (JAREA)	Users (industry group)	D	SR
ED43CL06	The Association for Real Estate Securitization (ARES)	Users (industry group))	D	SR
ED43CL07	Deloitte Touche Tohmatsu LLC	Auditors	FA	B
ED43CL08	PLUTUS Consulting	Users	FA	C
ED43CL09	KPMG AZSA LLC	Auditors	FA	B
ED43CL10	Keidanren (Japan Business Federation)	Preparers (industry group)	D	B
ED43CL11	The Life Insurance Association of Japan (LIAJ)	Financial institutions (industry group)	D	SR
ED43CL12	Ernst & Young ShinNihon LL	Auditors	FA	C
ED43CL13	The Japanese Institute of Certified Public Accountants (JICPA)	Auditors (industry group)	FA	B
ED43CL14	Japan Foreign Trade Council (JFTC)	Preparers (industry group)	FA	B
ED43CL15	Mitsubishi UFJ Asset Management	Financial instutions	FA	SR
ED43CL16	Japanese Bankers Association	Financial	FA	SR

	(JBA)	institutions (industry group)		
ED43CL17	Japan Real Estate Institute (JREI)	Others	D	SR
ED43CL18	PricewaterhouseCoopers Arata LLC	Auditors	FA	C
ED43CL19	NOMURA Asset Management	Financial institutions	FA	SR
ED43CL20	The Real Estate Companies Association of Japan	Preparers (industry group)	D	SR
ED63CL01	The Japanese Institute of Certified Public Accountants (JICPA)	Auditors (industry group)	AP	C
ED63CL02	The General Insurance Association of Japan (GiAJ)	Financial institutions (industry group)	AP	C
ED63CL03	The Norinchukin Bank	金融機関	-	-
ED63CL04	Japanese Bankers Association (JBA)	Financial institutions (industry group)	-	-
ED63CL05	National Association of Labour Banks	Financial institutions (industry group)	-	-
ED63CL06	TAKARA Disclosure & IR Research Institute	Others	AP	C
ED63CL07	Japan Securities Dealers Association (JSDA)	Financial institutions (industry group)	AP	B
ED63CL08	Pronexus Financial Disclosure Institute (PFDI)	Others	FA	B
ED63CL09	The Securities Analysts Association of Japan (SAAJ)	Users (industry group))	AP	B
ED63CL10	The Life Insurance Association of Japan (LIAJ)	Financial institutions (industry group)	FA	B
ED63CL11	The Second Association of Regional Banks	Financial institutions (industry group)	D	B
ED63CL12	Deloitte Touche Tohmatsu LLC	Auditors	AP	C
ED63CL13	The National Association of Shinkin Banks	Financial institutions (industry group)	D	B
ED63CL14	KPMG AZSA LLC	Auditors	AP	B
ED63CL15	Ernst & Young ShinNihon LL	Auditors	FA	B
ED63CL16	The Investment Trusts Association, Japan (JITA)	Financial institutions (industry group)	FA	SR
ED63CL17	The Regional Banks Association of Japan	Financial institutions (industry group)	FA	B
ED63CL18	National Association of Shinkin Banks (National Central Society of Credit Cooperatives)	Financial institutions (industry group)	FA	SR
ED63CL19	Keidanren (Japan Business Federation)	Preparers (industry group)	FA	B
ED63CL20	Individual	Others (researcher)	-	-
ED63CL21	Individual	Preparers	-	-
ED63CL22	Individual	Auditors	-	-

ED63CL23	Individual	Users	AP	B

AP: *Active proponents*
FA: *Flexible Adherents*
D: *Dissenters*
-: Mere questions or expressions of personal opinion

C: *conceptually based arguments*
SR: *self-referential arguments*
B: *both arguments*
Source: Authors