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Trust in Fair Value Accounting: Evidence from the Field

ABSTRACT

We survey stakeholders in the financial reporting process to examine trust in fair value accounting. Though respondents demonstrate high confidence in financial statements, they believe that fair value accounting decreases trust in financial reporting and that preparing fair value numbers is costly but beneficial. They also strongly believe in the Conceptual Framework underlying standard setting. Using multivariate regression analyses, we find that perceiving fair value accounting as beneficial is positively associated with trust in it, consistent with the theory of reasoned action that people engage in behavior (e.g., trust) based on expected positive outcomes of that behavior. We find that this positive association increases with stronger beliefs in the Conceptual Framework. Our paper contributes to the fair value literature by providing general insights on trust in fair value accounting and a specific and novel assessment of how the perceived benefits of fair value accounting increase stakeholders' trust in it.

Keywords: Trust, fair value accounting, Conceptual Framework

JEL Classifications: D82, G34, M41

1. INTRODUCTION

Trust underlies virtually all economic exchanges and is an important component of social capital (Gambetta 1988; Williamson 1993). Rousseau, Sitkin, Burt, and Camerer (1998, 393) define trust as a "psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviors of another." Improved trust increases economic growth (Knack and Keefer 1997; La Porta, Lopez-de-Silanes, Shleifer, and Vishny 1997; Zak and Knack 2001), international trade and investment (Guiso, Sapienza, and Zingales 2009), financial development (Guiso et al. 2004, 2008), and both corporate financing and M&A transactions (Duarte, Siegel, and Young 2012; Ahern, Daminelli, and Fracassi 2015; Bottazzi, Da Rin, and Hellmann 2016). In the context of financial reporting, users rely on a firm's financial reports to make decisions (e.g., whether to provide the firm with capital because they trust that the firm has prepared the reports in accordance with well-established accounting standards intended to make the reports useful.

Financial reporting plays a crucial role in capital markets but only if users trust the reported numbers (Levitt 1998). As financial statements become more fair-value oriented, trust may be undermined due to the concern about the credibility of the fair value estimates (e.g., Song, Thomas, and Yi 2010; Riedl and Serafeim 2011; Magnan, Menini, and Parbonetti 2014; Goh, Li, Ng, and Yong 2015; Chung, Goh, Ng, and Yong 2017). Yet, advocates of fair value accounting (e.g., standard setters) push for the use of more fair value numbers in financial reporting because doing so increases transparency by revealing timely and relevant information about the firm and by increasing the decision usefulness of the reported numbers to capital providers (Barth and Landsman 1995; Barth, Beaver, and Landsman 1996; Laux and Leuz 2009; Riedl and Serafeim 2011).

An extensive stream of fair value accounting research has yet to address how much various stakeholders in the financial reporting process, such as preparers (i.e., accountants),

auditors, and users, trust the usefulness of fair value accounting and what drives this trust (Hitz 2007; Landsman 2007; Laux and Leuz 2009; He, Wong, and Young 2012; Marra 2016). Hence, we conduct a survey to solicit stakeholders' views on fair value accounting.[1] Using the responses to this survey, we first present several useful insights into fair value accounting and related issues, and we make several noteworthy observations. For example, although respondents have a high level of trust in financial statement reporting overall, their trust in financial statements based on fair value accounting is significantly lower. Respondents demonstrate strong beliefs in the importance of the Conceptual Framework and in the benefits of fair value accounting, but they also firmly believe that preparing financial statements using fair value accounting is costly.

We then focus on what we consider to be an important determinant of trust in fair value accounting: its perceived benefits. Relying on the theory of reasoned action (Fishbein and Azjen 1975) and on a plethora of empirical evidence in the accounting and non-accounting literatures on the relation between perceived benefits and trust, we hypothesize that perceiving fair value accounting as beneficial is positively associated with trust in fair value accounting. We further hypothesize that the strength of belief in the Conceptual Framework underlying standard setting and the strength of belief in the reliability of fair value numbers moderate this association.

Using multivariate regression analyses with variables constructed from the survey responses, we find that perceiving fair value accounting as beneficial is associated with trust in it—an outcome consistent with the theory of reasoned action that behavior is motivated by expectations of positive outcomes from that behavior. In our analysis of the moderating variables, we first document that respondents perceive the Conceptual Framework and the

[1] Extant research primarily relies on capital market characteristics (e.g., stock prices or returns) to infer how investors view fair value accounting or specific fair value estimates. Despite some limitations of survey-based research, we believe it is useful to obtain feedback directly from stakeholders about their views on fair value accounting.

reliability of fair value estimates as important. We then examine how these two variables moderate our observed positive association between perceived benefits of and trust in fair value accounting. We find that this positive association is more pronounced when the individual has a stronger belief in the Conceptual Framework. This finding highlights that individuals with a stronger belief in the foundation underlying standard setting are more likely to trust fair value accounting when they perceive it as beneficial. However, we do not find significant evidence that a stronger belief in the reliability of fair value numbers moderates the association between perceived benefits of and trust in fair value accounting.

Finally, we conduct a set of supplementary analyses. First, we show that in general, trust in financial reporting does not drive the positive association between perceived benefits of and trust in fair value accounting. Second, we explore potential differences in the association between perceiving fair value accounting as beneficial and trust in fair value accounting across respondent types (i.e., preparers, auditors, and users). We find a significant positive association for all three respondent types, though it is stronger for preparers than it is for auditors. Finally, we examine how the perceived benefits of fair value accounting affect trust in fair value estimates and find, as expected, that trust in fair value estimates is highest for level 1 estimates and lowest for level 3 estimates. We also find that perceiving fair value accounting as beneficial is significantly associated with trust in level 1, level 2, and level 3 estimates, with the magnitude of the association increasing from level 1 to level 3. The latter finding suggests that as uncertainty over fair value estimates grows, its perceived benefits become increasingly important for building trust in these estimates.

Overall, our study contributes to the accounting research on fair value accounting by focusing on an important aspect of accounting: trust in the decision usefulness of the accounting. To this end, we conduct a survey to gather direct evidence of how stakeholders in the financial reporting process perceive various issues related to fair value accounting,

including trust. This empirical approach allows us to extend our research beyond issues based only on archival data. We then discuss several interesting findings based on analyses of the survey responses; for example, we find that respondents have high confidence in financial statements but believe that fair value accounting decreases trust in financial reporting.

We also contribute to the fair value accounting literature by studying a novel hypothesis: perceiving fair value accounting as beneficial is associated with trust in the accounting. In addition to exploring a research question that has hitherto been overlooked in the literature, we find a positive association for this hypothesis and determine that the perceived importance of the Conceptual Framework enhances this association—an outcome that has practical implications (Barth 2018). Our findings corroborate efforts by both academics, standard setters, and practitioners to document the benefits of fair value accounting and underscore the importance of communicating these documented benefits to increase financial statement users' trust in fair value accounting.

The next section provides some background of fair value accounting research and develops our hypotheses. Section 3 describes our survey research design. Section 4 discusses the design and results of our multivariate tests of the hypotheses on the association between the perceived benefits of fair value accounting and trust in fair value accounting. Section 5 concludes.

2. BACKGROUND AND HYPOTHESIS DEVELOPMENT

2.1. Background

Extant research has documented reasons to support the use of fair value accounting (e.g., Barth and Landsman 1995) and the challenges involved in implementing it in financial reporting (e.g., Hitz 2007; Benston 2008). Concerns have mounted in recent years about effective auditing of fair value measurements (e.g., Cannon and Bedard 2017). The complexities of financial reporting, including the use of fair value models that involve

subjective judgement and managerial discretion, place an increasingly onerous burden on CEOs and CFOs, who are primarily responsible for the preparation of reported financial statements, and on auditors, who are required to provide assurances for these statements.

A major challenge in the reporting of and attestation to fair value estimates occurs when the fair values contain sufficient measurement uncertainty such that point estimates are perceived as unreliable. For example, Christensen, Glover, and Wood (2012) show that minute changes in some estimation model inputs can dramatically impact the fair value point estimates in financial reporting. Hence, the burden of preparing, verifying, and attesting to financial statement items, which can be subject to enormous inherent estimation uncertainty, is nontrivial. Using real-world examples from Wells Fargo's and General Motors's financial statements, the authors compare estimation uncertainty in management's reported point estimates with the audit materiality of the financial statements as a whole. They show that some fair value account balance estimates have uncertainty ranges that are several times larger than the audit materiality threshold for the financial statements as a whole.

Other studies document additional challenges inherent to auditing fair value measurements.[2] Apart from estimation uncertainty, Cannon and Bedard (2017) and Glover, Taylor, and Wu (2017) find instances in which firms refuse to provide key data to auditors for evaluating the inputs to fair value estimates prepared by third-party experts (e.g., pricing services). For instance, Cannon and Bedard (2017) report that nearly a quarter of the most challenging audit cases involve a third-party expert using proprietary valuation models that auditors are prohibited from examining.

Trust is fundamental to the credibility of financial reporting (Levitt 1998; Garrett, Hoitash, and Prawitt 2014). Studies examining the usefulness of fair value estimates typically

[2] See Martin, Rich, and Wilks (2006) for an in-depth discussion of issues that auditors confront when auditing fair value measurements.

adopt an informational content perspective to evaluate whether the reported fair values provide useful information to investors (e.g., Barth et al. 1996; Eccher, Ramesh, and Thiagarajan 1996; Nelson 1996; Khurana and Kim 2003; Ahmed, Kilic, and Lobo 2006). The results from this stream of research generally suggest a positive association between fair value information and stock returns or share prices, which indicates that the stock market impounds this information as decision-useful. Yet, the research also indicates that reliability concerns about fair value estimates can offset this usefulness.[3] To the extent that reliability concerns reduce trust in reported fair values, the appropriateness of fair value as a measurement construct remains contentious.

In light of this scholarly debate, we examine the underlying issue of trust in fair value accounting. Empirical research examining fair value accounting does not focus on this issue, possibly due to the difficulty of constructing an empirical measure of trust. To the extent that perceptions of trust in reported fair values shape one's views in this debate, understanding what factors engender such trust might yield productive insights into why some stakeholders in the financial reporting process support fair value accounting and others see no benefit in it. Research using this method of investigation has focused on important areas related to earnings management, earnings quality, audit quality, and tax avoidance (e.g., Graham, Harvey, and Rajgopal 2005; Fiechter 2011; Dichev, Graham, Harvey, and Rajgopal 2013; Graham, Hanlon, Shevlin, and Shroff 2014; Persellin, Schmidt, Vandervelde, and Wilkins 2019).[4] Early survey research on fair value accounting solicits opinions from investors and users (e.g., Hodge 2003; Gassen and Schwedler 2010); taking a different tack, our paper gathers data from accounting professionals to learn about their views on fair value accounting.

[3] For example, Nelson (1996) finds that the fair values of loans, deposits, and long-term debt are not value-relevant, whereas Eccher et al. (1996) identify relevance for fair values of loans only in limited settings. These authors attribute the lack of value relevance to the measurement uncertainty in fair values.

[4] See also Bloomfield, Nelson, and Soltes (2016) for an insightful comparison of various research methods, including archival, field, survey, and experimental accounting research methods.

In addition to providing descriptive (univariate) information about key findings from our survey, we test a hypothesis about the relation between perceived benefits of financial reporting and trust in financial reporting. Further, we test two additional hypotheses about two moderators of this relation: i) belief in the importance of the Conceptual Framework and ii) belief in the importance of enhancing fair value estimates' reliability. We discuss these hypotheses in the next section.

2.2 Hypothesis development

2.2.1 Perceived benefits of financial reporting and trust in financial reporting

Our first hypothesis examines how perceived benefits of financial reporting affect trust in financial reporting. Kirby and King (1997) argue that if public accountants fulfil their role to assist enterprises in developing their management capability, then enterprises' impressions of accountants will improve. Similarly, Cherry (2016) notes that if the public accountant is viewed as providing more assistance to an enterprise, the enterprise will have higher trust in that public accountant. Sonja (2002) highlights the important role of consumer trust as a foundation for acceptance of electronic commerce, finding that trust can serve as a mechanism to reduce the uncertainty and complexity of online transactions. Similarly, Kim, Ferrin, and Raghav (2008) show that Internet consumers' trust and perceived risk affect their purchasing decisions. Hence, we posit that trust in fair value accounting will be important for its acceptance and that its perceived benefits will be an important determinant.

This hypothesis can be viewed from the theory of reasoned action (Fishbein and Azjen 1975), which aims to explain the relationship between human attitudes and behaviors by predicting how individuals will behave based on their attitudes and behavioral intentions (Azjen 2012). An individual chooses a behavior based on expected outcomes from that behavior (Bang, Ellinger, Hadjimarcou, and Traichal 2000). According to the theory of reasoned action, an intention to perform in a certain way precedes the actual behavior (Azjen

and Madden 1986). This behavioral intention originates from a belief that the behavior will yield a specific outcome (Ajzen and Albarracín 2007), thus framing individual motivations in terms of expected consequences (Azjen 2012). Hence, in the context of fair value accounting, we argue that when individuals believe that fair value accounting yields significant benefits, they are more likely to trust such accounting.

The literature supports this argument. In a study related to forensic accounting, Chew (2001) suggests that the perceived benefits of using forensic expertise from a Big Four auditing firm to contain the repercussions of fraud and conduct the fraud recovery process may increase trust in engaging forensic accounting services during a major fraud incident. The central tenet of this view is that a Big Four auditing firm has more forensic expertise than the organization has; thus, the organization trusts the external forensic accountant more than it trusts its internal fraud investigation.

Schnatterly (2003) examines how perceived benefits of forensic accounting may influence management's attitude toward engaging forensic accounting services. The study highlights how forensic prevention and detection practices may not be adopted in an organization unless management perceives great value in those actions. Ramaswamy (2005) argues that forensic accountants have expertise in fraud detection and prevention and therefore should be heavily involved in developing an effective system of corporate governance that interlinks with an organization's internal control mechanisms. In other words, if an organization perceives a robust corporate governance system as beneficial, then its belief in the system's importance will increase, thus increasing the organization's likelihood of implementing it. In another study related to accounting, Dimitriu and Matei (2014) suggest that cloud accounting offers benefits such as faster and more efficient accounting workflow, extended and improved collaboration and communication with business partners, and access

to real-time information on financial positions. Perceived benefits can raise accountants' confidence and trust in cloud accounting (Ebenezer, Omane-Antwi, and Kyei 2014).

The link between perceived benefits and trust also has been examined in the non-accounting literature. In consumer behavior research (Forsythe, Liu, Shannon, and Gardner 2006), the perceived benefits of buying are often relevant to shopping behaviors. Specifically, an individual's shopping behavior is motivated by the perception of its benefits, such as satisfaction (Chandon, Wansink, and Laurent 2000). Liu, Brock, Shi, Chu, and Tseng (2013) find evidence that three perceived benefits (price, convenience, and recreation) and three factors representing the trust of the initiator (perceived reputation, structural assurance, and website trustworthiness) have a significant positive influence on consumers' attitudes toward online group buying.

Loureiro (2013) examines the interrelationships of trust, brand awareness/associations, perceived quality, and brand loyalty in building Internet banking brand equity. Key findings of this study are that the perceived benefits of online banking positively affect customer trust in it and that the perceived risk of online banking decreases as this trust increases. In a study on the effects of perceived risk, perceived benefits, and trust in consumers' intention to use mobile payments, Park, Amendah, Lee, and Hyun (2019) find evidence of a negative relationship between perceived risk and consumer intention to use such payments. In sum, the prior literature—both theoretical and empirical—suggests that when individuals perceive benefits from engaging in an action, they are more likely to trust the action; hence, our first hypothesis, stated in alternate form, is as follows:

Hypothesis 1: A user's perceived benefits of fair value accounting is positively associated with that user's trust in fair value accounting.

2.2.2 Moderating effect of belief in the Conceptual Framework

The Conceptual Framework underlying standard setting specifies the qualitative characteristics that make a financial report useful for decision-making,[5] including two fundamental characteristics (relevance and faithful representation) and four enhancing characteristics (comparability, verifiability, timeliness, and understandability). However, these characteristics do not necessarily help build trust in fair value estimates and financial reports, despite the crucial role of trust in financial reporting in the capital markets. Prior studies report mixed evidence on the usefulness of fair value accounting, indicating that fair values enhance the relevance of financial information (Barth et al. 1996) but reduce its reliability (Christensen et al. 2012).

Over four decades of research on the Conceptual Framework, confusion remains over its value and use (Peasnell 1982; Dennis 2018). Joyce, Libby, and Sunder (1982) find that the Framework is limited in guiding standard setting. Barker and Teixera (2018) point to gaps in the recognition and measurement of assets, liabilities, income, and expenses in the accounting standards. Debates on the usefulness of standard setting in aggregating the information needs of users also persist. For example, the Conceptual Framework does not contain guidelines to trade off relevance and reliability (Macve 2010; Christensen 2011). The American Accounting Association's Financial Accounting Standards Committee (2010) suggests several characteristics (e.g., relevance and faithful representation) that a Conceptual Framework should contain. The European Financial Reporting Advisory Group argues that reliability should replace faithful representation as a fundamental qualitative characteristic and that verifiability should be included with reliability and not be an enhancing characteristic (Abela,

[5] The Conceptual Framework aims to provide a sound foundation for developing future accounting standards. As such, the Financial Accounting Standards Board (2010) has updated its Conceptual Framework, as encapsulated in Concepts Statement No. 8, Conceptual Framework for Financial Reporting.

Barker, Sommer, Teixera, and Andre 2014). Bauer, O'Brien, and Saeed (2014) also argue that reliability and prudence can help standard setters address moral hazards.

Herrmann, Saudagaran, and Thomas (2006) argue that several characteristics (e.g., predictive value, feedback value, timeliness, neutrality, representational faithfulness, comparability, and consistency) increase the belief that fair value measures for property, plant, and equipment are superior to historical cost. Jung, Pourjalali, Wen, and Daniel (2013) suggest that the superior representation of fair value motivates CFOs of U.S. companies to regard it as a reliable choice to measure non-financial assets. In a quasi-experimental study, Christensen and Nikolaev (2013) examine whether the choice between fair value or a historical cost model is determined by market forces. Their cost and benefit analyses predict that fair value accounting is more likely to be used when reliable estimates are easier to obtain and when fair value can represent performance measurement.

According to Kluver (2012), timeliness is critical in decision making. Fair value reflects actual market situations and thus can provide timely warnings, a benefit that should motivate users to trust its measurements. PwC (2010) cautions that some users may be encouraged to obtain financial instrument information from sources other than financial statements because of timeliness issues. Emerson, Karim, and Rutledge (2010) suggest that relevance is another important issue for aligning applicability criteria that users deem important with fair value's perceived performance against these criteria.

In sum, despite the debate about the Conceptual Framework's usefulness in guiding standard setting, the framework likely provides useful considerations for developing and revising standards. Stated differently, a framework with objectives aimed at more decision-useful financial reports is likely better than no framework. Hence, users who are more likely to believe that the Conceptual Framework guides the development of fair value accounting

standards are even more likely to trust this accounting when they also believe it has beneficial outcomes. Hence, we state our second hypothesis, in alternate form, as follows:

> *Hypothesis 2: The positive association between users' perceived benefits of fair value accounting and their trust in fair value accounting is more pronounced when users have a stronger belief in the Conceptual Framework underlying the standard setting.*

2.2.3 Moderating effect of belief that the reliability of fair value numbers can be enhanced

Trust in financial statements in general and in fair value estimates specifically can be undermined if the reliability of firms' reported fair values is perceived to be low (e.g., Song et al. 2010; Riedl and Serafeim 2011; Magnan et al. 2014; Goh et al. 2015; Chung et al. 2017; Yao, Percy, Steward, and Hu 2018). Research shows that reliability concerns about fair value estimates can offset the usefulness of financial information. For example, Nelson (1996) finds that the fair values of loans, deposits, and long-term debt are not value-relevant, whereas Eccher et al. (1996) find relevance for fair values of loans only in limited settings. These authors attribute the lack of value relevance to the measurement uncertainty in fair values.

Nonetheless, reliability is not a fundamental characteristic of the Conceptual Framework. Allen and Ramanna (2013) find that Financial Accounting Standards Board members with backgrounds in financial services are more likely to propose standards that decrease reliability and increase relevance, partly due to their tendency to propose fair value methods. Xiao and Hu (2017) further suggest that fair value information disclosed in the notes of financial statements should be more comprehensive and timelier, because as the quality of disclosure improves, perceptions of its trustworthiness, competence, and reliability also increase, which may in turn decrease users' perceived risk of using fair value estimates.

In a survey study of 156 practicing auditors in Sri Lanka, Kumarasiri and Fisher (2011) find general support for the decision usefulness of fair value accounting, although the authors identify specific reliability issues related to implementation in developing countries, such as

difficulties and inconsistent techniques associated with ascertaining fair values. If the reliability of fair value declines, Sri Lankan auditors might be less confident in and supportive of the usefulness of fair value estimates. Shortridge, Schroeder, and Wagoner (2006) highlight the importance of reliable methods of fair value measurement to improve investors' trust in financial statements. Sellhorn and Stier (2019) document that fair value estimates are significantly less reliable for mandatory adopters than for voluntary adopters of fair value reporting and that the use of external real estate appraisers enhances the reliability of fair value estimates. Kjellevold (2020) suggests that management may engage several specialists and strategically unite their point estimates to strengthen the reliability of fair value estimates. Such behavior may increase auditors' or creditors' trust in the assets' fair value.

Simunovic and Wennergren (2015) report that although Danske Bank trusted that internal valuations of real estate investments were generally reliable, its level of trust could vary depending on the age of the valuations, which might affect the reliability of fair value estimates. Dietrich and Stanford (2000) investigate the reliability of mandatory annual fair value estimates for UK investment properties and find that fair value estimates are considerably less biased and more accurate measures of selling price than historical cost amounts. Hsu, Pourjalali, and Song (2018) find that increased transparency from additional fair value disclosures reduces crash risk among U.S. banking firms and that the reduction is greater for banks with more Level 3 financial assets. In general, the reliability of fair value numbers is likely to be an important consideration when the benefits of fair value accounting influence one's trust in it. Hence, we state our third hypothesis in alternate form as follows:

> *Hypothesis 3: The positive association between the perceived benefits of fair value accounting and trust in fair value accounting is more pronounced when there is a stronger belief that the reliability of fair value numbers can be enhanced.*

3. RESEARCH DESIGN

3.1. Data Collection and Survey Respondents

We conducted a survey of 704 participants whom we recruited from two professional bodies in Singapore, the Institute of Singapore Chartered Accountants and the Institute of Valuers and Appraisers of Singapore.[6] The online survey was conducted using the Qualtrics tool. Both agencies administered the survey by emailing the survey link to their members. These emails assured anonymity and confidentiality of respondents and encouraged employees to complete the survey. We also mentioned in the emails that random selected participants who completed the survey would be offered cash vouchers ranging in value from S$20 to S$500. After sending out 35,153 emails, 704 respondents completed the survey (response rate of 2.00 percent), of which 226 were given cash vouchers.

Table 1 presents descriptive statistics of the demographic profile of these respondents. Of the 704 respondents, 430 (61.1 percent) indicated that they were preparers, 183 (26.0 percent) indicated that they were auditors, and 91 (12.9 percent) were users. 615 (87.4 percent) respondents had at least a bachelor's degree. Respondents had a mean (standard deviation) age of 36.41 (10.01) years and a mean (standard deviation) of 9.23 (8.33) years of work experience.

(Insert Table 1 here)

3.2. Measurement of constructs used in regression analyses

Our baseline hypothesis focuses on how trust in fair value accounting is associated with its perceived benefits. Our two additional hypotheses examine, as moderating variables, belief in the Conceptual Framework and concerns about the reliability of fair value numbers. Here, we discuss how we rely on the survey responses to develop each of these four key constructs.

[6] Approval for the survey was obtained from the respective institutes' institutional review boards.

3.2.1 Trust in fair value accounting

As previously discussed, financial statements increasingly use fair value accounting, leading scholars to question its impact on statements' decision usefulness and how specific fair value numbers are used in these statements. The literature examines these issues in different ways (e.g., equity market pricing of fair value numbers and use of the numbers in debt contracts), but the arguments generally rely on the notion that financial statement users will rely on fair value numbers if they trust that the numbers will be useful in making decisions, such as buying/selling shares or assessing a debt contract covenant. In other words, trust is a fundamental construct linking fair value accounting to the final usage of the numbers. Hence, we measure respondents' trust in fair value accounting (*Trust*) by asking them to rate their agreement with the following statement: "On a scale from 'Very High' to 'Very Low,' please rate your trust in the following: Trust in financial statements that are primarily based on fair value accounting."

3.2.2 Perceived benefits of fair value accounting

One objective of financial reporting is to provide external stakeholders with useful information about the reporting entity when making capital allocation decisions (Financial Accounting Standards Board 2010; Magnan, Wang, and Shi 2016). In this regard, a key benefit for external stakeholders is increased transparency of financial reporting (Tweedie 2008). To the extent that fair value accounting increases the transparency of financial reporting, it also is likely to decrease the reporting entity's cost of capital (Barlev and Haddad 2003; Armitage and Marston 2008). Prior research also suggests that implementation of fair value accounting can improve the internal business decisions of the reporting entity by increasing shareholders' ability to judge managers' actions (Barlev and Haddad 2003). Accordingly, we measure respondents' perceptions of the benefits of fair value accounting for stakeholders of the

financial reporting process by asking, "To what extent do you agree with the following statements?"

1. Fair values are relevant to internal business decisions;
2. Fair values increase the transparency of financial reporting; and
3. Providing fair value information lowers the cost of obtaining capital from investors or creditors.

We find that these three statements reliably capture the perceived benefits of fair value accounting: the responses to the statements have a Cronbach's alpha of 0.71, which exceeds the reliability criterion cutoff of 0.50 recommended by Nunally (1967) and which indicates high consistency in measuring the underlying construct. We also perform a factor analysis. The most frequently used criterion for retaining components in a factor analysis is an eigenvalue exceeding 1 (Floyd and Widaman 1995). Our factor analysis of the responses to the three statements yields a single factor with an eigenvalue exceeding 1. Factor loadings for all four questions are ≥0.75, satisfying the cutoff criterion of 0.50 suggested by Nunnally (1967). Therefore, we compute an overall measure of perceptions about the benefits of fair value accounting among stakeholders of the financial reporting process (*Benefits*) by averaging their agreement with the three statements.

3.2.3 Belief in the Conceptual Framework

The Conceptual Framework for Financial Reporting by the International Accounting Standards Board (IASB 2018) specifies two fundamental characteristics (relevance and faithful representation) and four enhancing characteristics (comparability, verifiability, timeliness, and understandability) that make a financial report useful for decision making. Accordingly, we measure respondents' belief in the IASB's Conceptual Framework by asking them to rate their agreement with the following statement, as it relates to the six attributes:

According to the IASB Conceptual Framework, two fundamental qualitative characteristics of useful financial information are relevance and faithful representation. The Conceptual Framework further notes that comparability, verifiability, timeliness, and understandability are identified as enhancing qualitative characteristics. That is, they increase the usefulness of information that is relevant and faithfully represented. Please indicate your opinion of the importance of each attribute with respect to financial reporting.

1. Relevance;
2. Faithful representation;
3. Comparability;
4. Verifiability;
5. Timeliness; and
6. Understandability.

Responses to these six attributes have a Cronbach's alpha of 0.83, which exceeds the reliability criterion cutoff of 0.50 recommended by Nunally (1967). The item thus likely measures the underlying construct with a high degree of consistency. Our factor analysis of the six attributes yields a single factor with an eigenvalue exceeding 1. Factor loadings for all six questions are ≥0.68, satisfying the cutoff criterion of 0.50 suggested by Nunnally (1967). Therefore, we compute an overall measure of respondents' belief in the IASB's Conceptual Framework (*CFramework*) by averaging respondents' ratings for the six attributes.

3.2.4 Belief that the reliability of fair value numbers can be enhanced

A key aspect of the reliability of fair value numbers relates to how they are derived (PwC 2014). To the extent that users of fair value accounting care about the reliability of the numbers, they should demand more disclosure about how the numbers are derived (Goh et al.

2015). Therefore, we measure respondents' concern about the reliability of fair value numbers by asking, "To what extent do you agree with the following statements?"

1. More disclosure about how fair values are derived will make reported fair values more useful to users of financial statements;
2. Firms should rely on third-party valuation to obtain fair value estimates if a market price is not available;
3. Regulators should penalize firms for inaccurate fair value estimates; and
4. Use of a valuation expert from outside the firm increases the reliability of fair value estimates.

The responses to these four statements have a Cronbach's alpha of 0.66, which again exceeds the reliability criterion cutoff of 0.50 recommended by Nunally (1967), indicating that the item measures the underlying construct with a high degree of consistency. Our factor analysis of the four questions yields a single factor with eigenvalue exceeding 1. Factor loadings for each of the six questions are ≥0.61, satisfying the cutoff criterion of 0.50 suggested by Nunnally (1967). We compute an overall measure of respondents' concern over the reliability of fair value numbers (*Reliability*) by averaging the ratings for these four questions.

3.3. Empirical models

3.3.1 Hypothesis 1

Our first hypothesis predicts a positive association between the perceived benefits of and trust in fair value accounting. To test this hypothesis, our regression specification is

$$Trust = \beta_0 + \beta_1 Benefits + \beta_2 Costs + \beta_3 Trust\_HC + \beta_4 Age + \beta_5 Gender + \beta_6 Experience + \beta_7 BEducation + \beta_8 PGEducation + \varepsilon \quad (1)$$

See Section 3.2.1 and Section 3.2.2 for definitions of *Trust* and *Benefits*, respectively. The coefficient of interest is the coefficient on *Benefits*, β1, which we predict to be positive.

For our control variables, we first include respondents' perception of the cost of preparing fair value financial reports, *Costs*.[7] As previously noted, many respondents view the cost of preparing fair-value-oriented financial reports as significant. In addition, we include respondents' trust in historical cost accounting (*Trust_HC*) because historical cost accounting represents an alternative to fair value accounting in the valuation of assets (Carroll, Linsmeier, and Petroni 2003). We also control for survey respondents' individual characteristics because they might generate spurious correlations between perception of the benefits of fair value accounting and trust in fair value accounting. Allen and Ramanna (2013) find that certain personal characteristics (e.g., educational background) and beliefs (e.g., political affiliation) influence standard setters' support of or opposition to fair value accounting standards. Hence, we include the following individual characteristics as control variables: age in years (*Age*); an indicator variable equaling 1 if the respondent is female and 0 otherwise (*Gender*); and years of experience in auditing, analyzing financial statements, preparing financial statements, or valuation experience (*Experience*). To control for education level, we use an indicator variable equaling 1 if the respondent has a bachelor's degree and 0 otherwise (*BEducation*) and an indicator variable equaling 1 if the respondent has a postgraduate degree or professional qualification and 0 otherwise (*PGEducation*).

3.3.2. Hypotheses 2 and 3

Our second hypothesis states that the positive association between perceived benefits of and trust in fair value accounting is more pronounced when there is a stronger belief in the Conceptual Framework underlying standard setting. Our third hypothesis states that this

[7] We compute *Costs* by averaging participants' levels of agreement that preparing financial statements using fair value accounting has substantial costs, fair value can create litigation risks for the firms or auditors, and that fair value adds monetary and non-monetary costs (Chen, Keung, and Lin 2019). The three questions yield a Cronbach's alpha of 0.60, indicating that they measure the underlying construct with a high degree of consistency (Nunnally 1967). Our factor analysis of the three questions yields a single factor with an eigenvalue exceeding 1. Factor loadings for each question are ≥0.70, satisfying the cutoff criterion of 0.50 suggested by Nunnally (1967).

association is more pronounced when there is a stronger belief that the reliability of fair value numbers can be enhanced. To test these hypotheses, we extend Equation (1) as follows:

$$Trust = \beta_0 + \beta_1\ Benefits + \beta_2\ HCFramework + \beta_3\ Benefits\ x\ HCFramework + \beta_4\ Costs + \beta_5\ Trust\_HC + \beta_6\ Age + \beta_7\ Gender + \beta_8\ Experience + \beta_9\ BEducation + \beta_{10}\ PGEducation + \varepsilon \quad (2)$$

$$Trust = \beta_0 + \beta_1\ Benefits + \beta_2\ HReliability + \beta_3\ Benefits\ x\ HReliability + \beta_4\ Costs + \beta_5\ Trust\_HC + \beta_6\ Age + \beta_7\ Gender + \beta_8\ Experience + \beta_9\ BEducation + \beta_{10}\ PGEducation + \varepsilon \quad (3)$$

The additional variables in Equations (2) and (3) are *HCFramework* and *HReliability*, respectively. *HCFramework* is an indicator variable that equals 1 if the respondent's belief in the importance of the Conceptual Framework is stronger than the median of the sample; this belief is measured using *CFramework*, which we define in Section 3.2.3. *HReliability* is an indicator variable that equals 1 if the respondent's belief in the importance of enhancing fair value estimates' reliability is stronger than the median within the sample; this belief is measured using *Reliability*, which we define in Section 3.2.4.

The coefficient of interest for Hypothesis 2 is the interaction term, *Benefits* × *HCFramework*, which we predict to be positive. The coefficient of interest for Hypothesis 3 is the interaction term, *Benefits* × *HReliability*, which we predict to also be positive.

4. EMPIRICAL RESULTS

4.1. Descriptive Statistics

The survey asks respondents to rate their agreement with statements related to fair value accounting using a 5-point scale, where 1 (5) corresponds to "Strongly Disagree" ("Strongly Agree"). To ensure the face validity of our questions, we pre-tested the survey instrument with financial reporting experts from the Institute of Singapore Chartered Accountants and Institute

of Valuers and Appraisers of Singapore. Overall, they were satisfied with the clarity of the survey questions and that the questions appropriately measured the underlying constructs.

Table 2 Panel A reports some findings from our survey responses.[8] We begin our discussion by focusing on our findings related to different aspects of trust in financial statements. We find that most respondents (69.6 percent) trust financial statement reporting; specifically, 59.5 percent agree and 10.1 percent strongly agree that they have trust in financial statements. 4.3 percent disagree or strongly disagree with this statement. The average trust in financial statements (3.751/5.000) is significantly greater than the neutral value of 3. Moving on to trust in financial statements that are based primarily on fair value accounting, we find a relatively low level of trust in such financial statements, with only 39.0 percent agreeing or strongly agreeing that they trust such financial statements. Nevertheless, the average trust in these financial statements (3.179/5.000) is significantly greater than the neutral value of 3. In an untabulated analysis, we conduct a test of differences in means between responses to statements on trust in financial statements and in financial statements primarily based on fair value accounting. The difference of 0.5724 is statistically significant at the 1 percent level ($p = 0.000$), suggesting that use of fair value accounting decreases trust in financial statements. With regard to trust in financial statements that are based primarily on historical cost accounting, we find a relatively high level of trust in such financial statements, with 63.0 percent agreeing that they trust such financial statements. The average trust in these financial statements (3.450/5.000) is significantly greater than the neutral value of 3.

Our survey respondents generally view fair value accounting to be beneficial to the firms. 66.7 percent agree or strongly agree that it is relevant to internal business decisions. 54.6 percent agree or strongly agree that it increases the transparency of financial reporting. 37.8

[8] The survey instrument includes several questions for which the responses are not analyzed. For our study, we focus on questions that are used to construct variables, including control variables, to study how benefits of fair value accounting specific to the reporting entity affect trust in fair value accounting. The descriptive information of the responses of the other questions are available upon request.

percent agree or strongly agree that it lowers the cost of obtaining capital from investors or creditors.

Most of our survey respondents concur that there are substantial costs associated with preparing financial statements using fair value accounting. 81.8 percent agree or strongly agree that there would be substantial costs of preparing financial statements using fair value accounting. 77 percent agree or strong agree that fair value accounting adds monetary and non-monetary costs to the accounting profession. 60.2 percent agree or strongly agree that it create litigation risks for the firms or auditors.

Our survey respondents regard the Conceptual Framework characteristics to be important. Relevance is regarded as the most important characteristic, with the highest mean rating of 4.078 and 86.2 percent of the respondents agreeing or strongly agreeing that it is important. The average ratings of the remaining characteristics are about 4 out of 5 and there are significant agreement about their importance. The mean ratings of all the characteristics are significantly greater than the neutral value of 3.

Finally, most of the survey respondents agree that there are measures that could improve the reliability of fair value reporting. 79.2 percent agree or strong agree that more disclosures about how fair values are derived will make reported fair values more useful. 78.4 percent agree or strongly agree that it is important for firms to rely on third-party valuation to obtain reliable fair value estimates if a market price is not available. 56.1 percent agree or strongly agree that regulators should penalize firms for inaccurate fair value estimates. 75.6 percent agree or strongly agree that the use of a valuation expert from outside the firm increases the estimates' reliability.

(Insert Table 2 here)

4.2. Tests of hypotheses

Panel B of Table 2 presents the descriptive statistics for the variables used in Equation (1). We find that *Trust* (mean=3.1800) is greater than the mid-point (of 3) used in our 5-point scale, suggesting that our survey respondents have a relatively high level of trust in fair value accounting. We also find that *Benefits* (mean=3.4610) and *Costs* (mean=3.8702) are also greater than the mid-point of the scale, suggesting that respondents perceive fair value accounting as beneficial and costly for preparers. *Trust_HC* (mean=3.4500) indicates that respondents have a relatively high level of trust in historical cost accounting. Panel C of Table 3 presents the correlations among the key constructs used in our analysis. Overall, we find that *Trust* is positively correlated with *Benefits* at the 1 percent level. However, *Trust* is not significantly correlated with *Costs* or *Trust_HC*.

Hypothesis 1 predicts a positive association between the perceived benefits of and trust in fair value accounting. Table 3 presents the results of our test of Hypothesis 1. The coefficient of *Benefits* is 0.6059 and statistically significant at 1 percent, indicating that an incremental increase of 0.6059 on a scale of 1 to 5 enhances the trust level by 1 on that scale. This strong positive relationship supports our first hypothesis of a positive association between perceiving benefits of and trusting in fair value accounting.

The variance inflation factor (VIF) has a range that signifies various levels of multicollinearity. Given the VIF for *Benefits* is 1.07, multicollinearity is unlikely to affect the precision of the coefficient on *Benefits*. In other words, we can more confidently infer that the perception of benefits of fair value accounting increases trust in fair value accounting. The VIFs for the other independent variables are also less than 5: the highest VIF is for *Age* and has a value of 3.52. Hence, the coefficients on these variables also are estimated with reasonable precision.

(Insert Table 3 here)

We then test Hypotheses 2 and 3. Hypothesis 2 states that the positive association between perceived benefits of and trust in fair value accounting is more pronounced when there is a stronger belief in the Conceptual Framework underlying standard setting. Hypothesis 3 states that this association is more pronounced when there is a stronger belief that the reliability of fair value numbers can be enhanced.

Table 4 documents the results on the moderating effects of the relation between the association between trust in fair value accounting and perceived benefits of fair value accounting. We rely on interaction terms to draw inferences on moderating effects. Table 4 Columns 1 and 3 first present results without interaction terns and the remaining columns present results with interaction terms. Table 4 Column 2 reports the results for the test of Hypothesis 2. The coefficient on the interaction term, *Benefits* × *HCFramework*, is 0.2231 and statistically significant at 5 percent, indicating that a stronger belief in the Conceptual Framework increases the positive association between perceived benefits of and trust in fair value accounting. Thus, Hypothesis 2 is supported. Table 5 Column 4 reports the results of the test of Hypothesis 3. The coefficient on the interaction term, *Benefits* × *HReliability*, is -0.0543 and not statistically significant. Hence, we do not find evidence that a stronger belief that the reliability of fair value numbers can be enhanced increases the positive association between perceived benefits of and trust in fair value accounting. In Table 4 Column 5, we jointly examine the effect of believing in the importance of the Conceptual Framework and the reliability of fair value numbers. Similar to our other findings, we find that the former has a statistically significant moderating effect, whereas the latter has no statistically significant moderating effect. Overall, we find support for Hypothesis 2 but not for Hypothesis 3.

(Insert Table 4 here)

4.3 Supplementary tests

Tables 5, 6, and 7 report the results of supplementary tests for Hypothesis 1. In Table 5, we disaggregate the sample into two sub-samples: high trust in financial reporting and low trust in financial reporting, with high trust defined as higher than or equal to the median rating on 1–5 scale of trust in financial reporting. We repeat the test of Hypothesis 1 for the two sub-samples. The coefficients of *Benefits* are statistically significant at 1 percent in both sub-samples, but the differences in the coefficients are not statistically significant. The results show that the positive association between perceived benefits of and trust in fair value accounting is not driven by the level of trust in financial reporting. This test mitigates concerns of omitted correlated bias arising from overall trust in financial reporting.

(Insert Table 5 here)

In Table 6, we disaggregate the sample into different respondent types: preparer, auditor, and user.[9] We repeat the test of Hypothesis 1 for the three sub-samples. The coefficients of *Benefits* are statistically significant at 1 percent in all sub-samples. The test of difference in coefficients between preparer and user sub-samples and between auditor and user sub-samples are not statistically significant. However, the difference in the coefficients of 0.6742 for the preparer sub-sample and of 0.4408 for the auditor sub-sample are statistically significant at 1 percent. Auditors might be more conservative due to their role in the financial reporting process and more concerned with the reliability of fair value numbers, hence their lower trust in the perceived benefits of fair value accounting.

(Insert Table 6 here)

Finally, we provide further analysis of the effects of perceived benefits of fair value accounting by focusing on trust in fair value estimates for individual items on the statement of financial position. This measure differs from the level of trust in financial statements based

[9] The survey contains conditional questions that respondents are directed to based on their profiles.

primarily on fair value accounting in that it focuses on specific fair value estimates. To conduct this analysis, we use survey responses to the following item to construct the variables, indicated in italics in parentheses after the statements:

On a scale from "Very High" to "Very Low," please rate your trust in the following:

1. Trust in fair value estimates (*Trust_FVE*);
2. Trust in level 1 fair value estimates (*Trust_FV1*);
3. Trust in level 2 fair value estimates (*Trust_FV2*); and
4. Trust in level 3 fair value estimates (*Trust_FV3*).

Table 7 Panel A summarizes the variables. Trust in fair value estimates has a mean rating of 3.047, which is not statistically significantly different from the neutral rating of 3. In fact, 43.3 percent of respondents gave a neutral rating of 3, indicating that respondents neither trust nor distrust fair value estimates. The mean ratings decrease from level 1 (3.524) to level 2 (3.074) and level 3 (2.695). The proportion of respondents who trust fair value estimates decreases from level 1 (54.8 percent) to level 2 (31.4 percent) to level 3 (19.1 percent).

Table 7 Panel B uses a regression analysis to examine the association between perceived benefits of fair value accounting and the variables. The analysis is based on Equation (1), except that we substitute the dependent variable with the variables. In Column 1, for dependent variable *Trust_FVE*, we find the coefficient of *Benefits* to be positive and statistically significant at 1 percent, providing further support for Hypothesis 1. In columns 2, 3, and 4 (*Trust_FV1, Trust_FV2,* and *Trust_FV3,* respectively), the coefficients of *Benefits* remain positive and statistically significant at 1 percent. The differences in coefficients of *Benefits* between *Trust_FV1* and *Trust_FV3* and between *Trust_FV2* and *Trust_FV3* are statistically significant at 1 percent with dependent variables. The difference in coefficients of *Benefits* between *Trust_FV1* and *Trust_FV2* is statistically significant at 10 percent. These results show that the effects of perceived benefits of fair value accounting on trust are

significantly different for level 3 estimates (versus levels 1 and 2). In addition, the effects of perceived benefits of fair value accounting on trust are marginally statistically different for level 1 and level 2 estimates. Finally, we note that the magnitude of the effect of perceived benefits of fair value accounting increases from level 1 to level 3 (0.4058 to 0.5886), suggesting that as the degree of uncertainty (or managerial discretion) over the fair value estimates increases, perceived benefits become increasingly important in building trust in these estimates.

(Insert Table 7 here)

5. CONCLUSION

A better understanding of trust in the decision usefulness of fair value accounting is important for various stakeholders in the financial reporting process. Lack of trust can undermine confidence in financial reporting, especially as financial reporting becomes more fair-value oriented. In this paper, we document survey-based evidence from three stakeholder types, namely preparers, auditors, and users of financial statements, regarding various perspectives related to their trust in fair value accounting. A key finding from the survey is that respondents have high confidence in financial statements but believe that fair value accounting decreases trust in financial reporting. Another key finding is a strong belief in the importance of the Conceptual Framework underlying standard setting. We find somewhat strong beliefs that fair value accounting yields various benefits, along with strong beliefs that using fair value accounting to prepare financial statements has substantial costs. Other survey responses mostly align with expectations and can serve as confirmatory evidence of prior expectations for what fair value accounting entails.

Using multivariate regression analyses of the survey responses, we find that the perception of fair value accounting as beneficial is positively associated with overall trust in fair value accounting, which is consistent with the theory of reasoned action that trust is based on expected positive outcomes. In addition, we find that a stronger belief in the Conceptual

Framework enhances this positive association. Overall, our paper contributes to the fair value accounting literature by providing general insights about trust in fair value accounting as well as specific and novel insights into how the perceived benefits of fair value accounting contribute to trust in this accounting.

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TABLE 1 Sample composition

This table reports the sample composition of our survey respondents with respect to their job position, education, age, and work experience. The total sample size is 704 respondents.

Specialization	Obs.	%	Education	Obs.	%
Preparers	430	61.1	Master's degree and above	109	15.5
Auditors	183	26.0	Bachelor's degree	506	71.9
Users	91	12.9	No degree	89	12.6
Total	704	100.0		704	100.0

Age groups	Obs.	%	Work experience	Obs.	%
≤30 years	251	35.7	<5 years	250	35.5
31–40 years	241	34.2	5–9 years	167	23.7
41–50 years	149	21.2	10–19 years	178	25.3
>50 years	63	8.9	≥20 years	109	15.5
Total	704	100.0		704	100.0

TABLE 2 Descriptive Statistics

Panel A presents some analyses of the responses in our survey. p-values of tests examine whether an average rating is statistically different from the neutral value of 3 are reported in parentheses next to the ratings. Panel B presents the descriptive statistics of key constructs used in the regression model to test Hypothesis 1. Panel C presents the Pearson correlations for the key variables used in the regression models. ***, **, and * indicate statistical significance at the 1 percent, 5 percent, and 10 percent levels, respectively.

PPanel A: Analyses of survey responses

	Mean H0: Rating = 3 (p-value) [a]	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Trust in financial statements						
Trust in financial statements	3.751 (0.000)	0.3	4.0	26.1	59.5	10.1
Trust in financial statements based primarily on fair value accounting	3.179 (0.000)	3.9	18.0	39.1	34.5	4.5
Trust in financial statements based primarily on historical cost accounting	3.450 (0.000)	1.4	14.3	31.3	43.3	9.7
Benefits of fair value accounting						
Fair values are relevant to internal business decisions.	3.671 (0.000)	2.6	7.4	23.3	53.8	12.9
Fair values increase the transparency of financial reporting.	3.484 (0.000)	2.1	10.5	32.8	45.9	8.7
Providing fair value information lowers the cost of obtaining capital from investors or creditors.	3.225 (0.000)	2.7	15.2	44.3	32.4	5.4
Costs of fair value accounting						
There are substantial costs to preparing financial statements using fair value accounting.	4.076 (0.000)	0.1	2.9	15.2	52.8	29.0
Fair value accounting adds monetary costs (e.g. incremental valuer costs) and non-monetary costs (e.g. incremental risks) to the accounting profession.	3.903 (0.000)	0.4	2.3	20.3	60.5	16.5
Fair values can create litigation risk to firms or auditors	3.629 (0.000)	0.9	7.9	31.0	47.9	12.3
Importance of Conceptual Framework characteristics						
Relevance	4.078 (0.000)	0.3	0.7	12.8	63.3	22.9
Faithful representation	4.028 (0.000)	0.1	1.8	16.2	58.7	23.2
Comparability	3.919 (0.000)	0.3	2.4	19.9	59.9	17.5
Verifiability	3.976 (0.000)	0.1	2.7	17.6	58.6	21.0
Timeliness	4.004 (0.000)	0.6	2.1	14.9	61.1	21.3
Understandability	4.053 (0.000)	0.7	1.6	15.2	56.8	25.7
Measures to improve reliability of fair value reporting						

More disclosure about how fair values are derived will make reported fair values more useful to users of financial statements.	3.985 (0.000)	1.4	3.8	15.6	53.0	26.2
Firms should rely on third-party valuation to obtain fair value estimates if a market price is not available.	3.963 (0.000)	0.7	4.3	16.6	54.8	23.6
Regulators should penalize firms for inaccurate fair value estimates.	3.568 (0.000)	3.0	10.5	30.4	38.9	17.2
Use of a valuation expert from outside the firm increases the reliability of fair value estimates.	3.919 (0.000)	0.6	4.5	19.3	53.6	22.0

Panel B: Descriptive statistics (N = 704)

	Mean	Median	Std. Dev.
Trust	3.1790	3.0000	0.9110
Benefits	3.4610	3.6700	0.6974
Costs	3.8702	4.0000	0.5685
Trust_HC	3.4500	4.0000	0.9025
Age	36.4105	34.0000	10.0098
Gender	0.4901	0.0000	0.5003
Experience	9.2287	6.0000	8.3335
BEducation	0.8736	1.0000	0.3326
PGEducation	0.8523	1.0000	0.3551

Panel C: Pearson correlations

	Trust	*Benefits*	*Costs*	*Trust_HC*	*Age*	*Gender*	*Experience*	*BEducation*
Trust	1.0000							
Benefits	0.4716***	1.0000						
Costs	-0.0237	0.1207***	1.0000					
Trust_HC	-0.0558	-0.0907**	0.1184***	1.0000				
Age	-0.1514***	-0.1698***	0.0704*	0.1269***	1.0000			
Gender	0.0539	-0.0221	-0.0208	0.1097***	-0.1198**	1.0000		
Experience	-0.1577***	-0.1667***	0.0832**	0.1182***	0.8319***	-0.0935**	1.0000	
BEducation	-0.0050	0.0409	0.0201	-0.0452	-0.2596***	0.0053	-0.1646***	1.0000
PGEducation	-0.1292***	-0.1443***	0.0009	0.0145	0.3353***	0.0077	0.3082***	-0.1343***

TABLE 3 The association between trust in fair value accounting and perceived benefits of fair value accounting

This table reports the regression results of regressing *Trust* on *Benefits.* Control variables include *Costs, Age*, *Gender, Experience, BEducation, PGEducation* and *Trust_HC*. The t-statistics are reported in parentheses. Variance inflation factors are reported in square brackets. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Dep. Var. = *Trust*	Hypothesis 1
Benefits	0.6059***
	(12.59)
	[1.07]
Costs	-0.1177**
	(-2.12)
	[1.04]
Trust_HC	0.0059
	(0.16)
	[1.05]
Age	-0.0017
	(-0.28)
	[3.52]
Gender	-0.0665
	(-1.09)
	[1.03]
Experience	-0.0053
	(-0.76)
	[3.31]
BEducation	-0.1139
	(-1.17)
	[1.09]
PGEducation	-0.1206
	(-1.53)
	[1.15]
Intercept	1.9300***
	(5.34)
Observations	704
Adj. R^2	0.2301

TABLE 4 Moderating effects of perceived importance of Conceptual Framework and of enhancing the reliability of fair value estimates

This table reports the regression results of regressing *Trust* with *Benefits*, *HCFramework,* and *HReliability*. We code *HCFramework* as 1 for values above and equal to the median and 0 otherwise; we code *HReliability* as 1 for values above and equal to the median and 0 otherwise. Control variables include *Costs, Age*, *Gender, Experience, BEducation, PGEducation*, and *Trust_HC.* The t-statistics are reported in parentheses. Variance inflation factors are reported in square brackets. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

	(1)	(2)	(3)	(4)	(5)
Dep. Var. = *Trust*		Hypothesis 2		Hypothesis 3	Joint Hypotheses 2 and 3
Benefits	0.5801***	0.4229***	0.5871***	0.6040***	0.4319***
	(11.75)	(4.84)	(11.62)	(9.95)	(4.72)
	[1.11]	[3.59]	[1.15]	[1.67]	[3.86]
HCFramework	0.2029***	-0.5497			-0.5808*
	(3.20)	(-1.57)			(-1.65)
	[1.06]	[27.37]			[28.03]
Benefits × *HCFramework*		0.2231**			0.2308**
		(2.22)			(2.29)
		[32.50]			[33.36]
HReliability			0.1059	0.3036	0.4158
			(1.52)	(0.75)	(1.05)
			[1.13]	[31.49]	[32.13]
Benefits × *HReliability*				-0.0543	-0.0914
				(-0.51)	(-0.87)
				[34.32]	[35.14]
Costs	-0.1285**	-0.1223**	-0.1299**	-0.1291**	-0.1301**
	(-2.31)	(-2.24)	(-2.36)	(-2.35)	(-2.41)
	[1.05]	[1.05]	[1.07]	[1.07]	[1.07]
Trust_HC	-0.0025	0.0020	0.0059	0.0075	0.0051
	(-0.07)	(0.06)	(0.16)	(0.21)	(0.14)
	[1.05]	[1.06]	[1.05]	[1.06]	[1.07]
Age	-0.0008	-0.0011	-0.0012	-0.0012	-0.0007
	(-0.13)	(-0.19)	(-0.20)	(-0.20)	(-0.12)
	[3.53]	[3.53]	[3.53]	[3.53]	[3.54]
Gender	-0.0588	-0.0608	-0.0676	-0.0655	-0.0584
	(-0.98)	(-1.02)	(-1.11)	(-1.08)	(-0.98)
	[1.03]	[1.03]	[1.03]	[1.03]	[1.03]
Experience	-0.0069	-0.0064	-0.0055	-0.0054	-0.0063
	(-1.00)	(-0.93)	(-0.78)	(-0.76)	(-0.91)
	[3.32]	[3.33]	[3.31]	[3.31]	[3.33]
BEducation	-0.1100	-0.0961	-0.1116	-0.1132	-0.0966
	(-1.13)	(-0.99)	(-1.16)	(-1.17)	(-1.01)
	[1.09]	[1.09]	[1.09]	[1.09]	[1.09]
PGEducation	-0.1349	-0.1424*	-0.1159	-0.1193	-0.1443*
	(-1.70)	(-1.78)	(-1.46)	(-1.49)	(-1.78)
	[1.15]	[1.15]	[1.15]	[1.15]	[1.16]
Intercept	1.9343***	2.4185***	1.9907***	1.9251***	2.3722***
	(5.43)	(5.84)	(5.51)	(5.06)	(5.58)
Observations	704	704	704	704	704
Adj. R^2	0.2397	0.2445	0.2315	0.2308	0.2448

TABLE 5 Is the association between perceived benefits of fair value accounting and trust in fair value accounting driven by trust in financial reporting per se?

This table reports the regression results of regressing *Trust* with *Benefits* across high/low trust in financial reporting (*Trust_FR*). Control variables include *Costs, Age*, *Gender, Experience, BEducation, PGEducation* and *Trust_HC.* The t-statistics are reported in parentheses. Variance inflation factors are reported in square brackets. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Dep. Var. = *Trust*	(1)	(2)
Trust in Financial Reporting	High	Low
Benefits	0.5755***	0.5064***
	(9.81)	(6.07)
	[1.08]	[1.10]
Costs	-0.1095	-0.2015**
	(-1.60)	(-2.45)
	[1.04]	[1.07]
Trust_HC	0.0346	-0.2707***
	(0.75)	(-3.95)
	[1.07]	[1.07]
Age	0.0042	-0.0116
	(0.60)	(-1.37)
	[3.55]	[3.74]
Gender	-0.0637	-0.0162
	(-0.88)	(-0.16)
	[1.04]	[1.04]
Experience	-0.0051	-0.0066
	(-0.64)	(-0.67)
	[3.39]	[3.29]
BEducation	-0.0594	-0.2877**
	(-0.50)	(-2.10)
	[1.05]	[1.25]
PGEducation	-0.1384	-0.0632
	(-1.54)	(-0.45)
	[1.14]	[1.16]
Intercept	1.7653***	3.5614***
	(3.93)	(6.71)
Observations	490	214
Adj. R^2	0.1994	0.3332
Test of difference in coefficients on *Benefits* across (1) and (2)	0.48 (0.4902)	

TABLE 6 Does the association between perceived benefits of fair value accounting and trust in fair value accounting vary with respondent profiles?

This table reports the regression results of regressing *Trust* with *Benefits* across respondent profiles. Control variables include *Costs, Age*, *Gender, Experience, BEducation, PGEducation* and *Trust_HC.* The t-statistics are reported in parentheses. Variance inflation factors are reported in square brackets. *, **, and *** indicate significance at the 10 percent, 5 percent, and 1 percent levels, respectively.

Dep. Var. = *Trust*	(1)	(2)	(3)
Respondent type	Preparers	Auditors	Users
Benefits	0.6742***	0.4408***	0.5562***
	(11.54)	(4.44)	(3.89)
	[1.05]	[1.21]	[1.23]
Costs	-0.0750	-0.1129	-0.3020**
	(-0.99)	(-1.15)	(-2.03)
	[1.04]	[1.16]	[1.19]
Trust_HC	0.0243	0.0166	0.0084
	(0.51)	(0.26)	(0.09)
	[1.08]	[1.04]	[1.06]
Age	0.0073	-0.0188	-0.0220*
	(0.99)	(-1.11)	(-1.66)
	[2.78]	[5.72]	[4.45]
Gender	-0.1601*	0.1118	0.0189
	(-1.91)	(0.98)	(0.11)
	[1.06]	[1.08]	[1.14]
Experience	-0.0120	0.0049	0.0127
	(-1.53)	(0.26)	(0.72)
	[2.72]	[5.14]	[3.99]
BEducation	-0.0179	-0.3965*	-0.2752
	(-0.16)	(-1.90)	(-0.97)
	[1.07]	[1.21]	[1.20]
PGEducation	-0.1753	0.1242	-0.3213**
	(-1.33)	(0.95)	(-2.05)
	[1.06]	[1.32]	[1.20]
Intercept	1.2860***	2.8237***	3.4284***
	(2.80)	(3.95)	(3.69)
Observations	430	183	91
Adj. R^2	0.2611	0.1501	0.2234
Test of difference in coefficients *Benefits* across (1) and (2)	4.29** (0.0384)		
Test of difference in coefficients *Benefits* across (2) and (3)		0.48 (0.4891)	
Test of difference in coefficients *Benefits* across (1) and (3)			0.64 (0.4244)

Table 7 Analysis of trust in fair value estimates

This table reports the regression results of regressing *Trust_FVE* with *Benefits*. *Trust_FVE* represents trust in fair value estimates; *Trust_FV1* represents trust in level 1 fair value estimates; *Trust_FV2* represents trust in level 2 fair value estimates; and *Trust_FV3* represents trust in level 3 fair value estimates. Control variables include *Costs, Age*, *Gender, Experience, BEducation, PGEducation* and *Trust_HC.* p-values of tests that examine whether an average rating is statistically different from the neutral value of 3 are reported in parentheses next to the ratings.

Panel A Survey responses on trust in fair value estimates

	H0: Rating = 3 (p-value)	Strongly Disagree (%)	Disagree (%)	Neutral (%)	Agree (%)	Strongly Agree (%)
Trust in fair value estimates (*Trust_FVE*)	3.047 (0.152)	3.3	22.6	43.3	27.8	3.0
Trust in:						
Level 1 estimates (*Trust_FV1*)	3.524 (0.000)	2.3	10.8	32.1	41.9	12.9
Level 2 estimates (*Trust_FV2*)	3.074 (0.021)	3.4	19.6	45.6	29.0	2.4
Level 3 estimates (*Trust_FV3*)	2.695 (0.000)	12.4	26.7	41.8	17.4	1.7

Panel B Regression analysis of the association between perceived benefits of fair value accounting and trust in fair value estimates

Dep. Var. =	(1) *Trust_FVE*	(2) *Trust_FV1*	(3) *Trust_FV2*	(4) *Trust_FV3*
Benefits	0.5595***	0.4058***	0.4718***	0.5886***
	(12.19)	(6.85)	(9.40)	(12.56)
	[1.07]	[1.07]	[1.07]	[1.07]
Costs	-0.1518***	0.0592	0.0091	-0.1141*
	(-2.84)	(0.98)	(0.16)	(-1.79)
	[1.04]	[1.04]	[1.04]	[1.04]
Trust_HC	0.0940***	-0.0247	0.0123	0.0882**
	(2.83)	(-0.63)	(0.35)	(2.18)
	[1.05]	[1.05]	[1.05]	[1.05]
Age	-0.0042	-0.0284***	-0.0117**	0.0059
	(-0.73)	(-5.07)	(-2.41)	(1.04)
	[3.52]	[3.52]	[3.52]	[3.52]
Gender	-0.0746	0.1554**	-0.0843	0.2550***
	(-1.26)	(2.37)	(1.41)	(3.85)
	[1.03]	[1.03]	[1.03]	[1.03]
Experience	0.0008	0.0153**	0.0043	-0.0061
	(0.11)	(2.33)	(0.74)	(-0.87)
	[3.31]	[3.31]	[3.31]	[3.31]
BEducation	-0.0417	0.0493	-0.0980	-0.2184**
	(-0.45)	(0.47)	(-1.00)	(-2.05)
	[1.09]	[1.09]	[1.09]	[1.09]
PGEducation	-0.2354***	-0.1299	-0.1196	-0.1352
	(-2.99)	(-1.52)	(-1.56)	(-1.49)
	[1.15]	[1.15]	[1.15]	[1.15]
Intercept	1.8691***	2.7022***	2.0658***	1.3257***
	(5.48)	(7.44)	(6.04)	(3.59)
Observations	704	704	704	704
Adj. R^2	0.2250	0.1677	0.1794	0.2019
Test of difference in coefficients on *Benefits* across (2) and (3)		3.05*		
		(0.0806)		
Test of difference in coefficients on *Benefits* across (3) and (4)			8.08***	
			(0.0045)	
Test of difference in coefficients on *Benefits* across (2) and (4)				8.34***
				(0.0039)