Constructing Accounting as a Public Policy Issue:
The Framing of Fair Value Accounting during the Global Financial Crisis of 2007–09*

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ABSTRACT. We analyze how accounting topics emerge as public policy issues. Drawing on framing theory, we understand accounting debates as frame contests, wherein different frames, that is, different versions of perceived reality, compete for policymakers’ acceptance. Based on a comprehensive review of the public debate on fair value accounting in Europe and the United States during the global financial crisis of 2007-09, we analyze how actors framed an accounting issue over time to construct a public policy issue. This process entailed a shift of the debate’s focus from contesting fair value accounting’s ability to meet traditional accounting objectives to contesting the accounting rule’s influence on financial stability. Our analysis points to a clash between standard setters’ and their constituents’ mindsets. While standard setters consistently emphasized that financial accounting merely acts as a mirror of economic reality, contextual factors during the financial crisis caused an increasing number of accounting constituents to foster the idea that accounting was itself constructing reality. This shift in the use of frames to challenge accounting regulations resulted in the emergence of a public policy issue where public policymakers adopted the radical view of accounting, according to which standard setters should consider their standards’ economic consequences as an accounting objective.

Keywords: Accounting change, Politics, Framing, Fair value accounting, Public debate

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1. Introduction

Due to its wealth distribution effects, accounting regulation is a political endeavor (Horngren, 1973; Watts & Zimmerman, 1978; Zeff, 1978) and frequently enters the agenda of public policymakers (see e.g. Zeff, 2016a). Yet, so far, little is known about the process through which accounting topics become public policy issues that cause politicians to actively consider intervening in the decision-making process of accounting standard setters (Arnold, 2009). During the financial crisis of 2007-2009 (hereafter “financial crisis”), even the standard setters were “taken by surprise”, when the European Commission confronted the International Accounting Standards Board (IASB) in October 2008 with an ultimatum to amend its rules for financial instruments (IASB Chairman David Tweedie in House of Commons, 2008) or found themselves in an impotent situation when testifying in Congress.¹

In this study, we therefore investigate the public debate about fair value accounting (FVA)² during the financial crisis to provide a better understanding of the process that eventually leads to the politicization of accounting topics.

To trace the process that transforms an accounting issue into a public policy issue, we focus on the fair value debate during the financial crisis and analyze how different social actors framed the issue of FVA and how contextual factors affected the dynamics of the frame contest. Our approach builds on the idea that social problems, such as accounting problems, do not exist per se, but result from social actors’ endeavors to frame a given situation as being problematic (Benford & Snow, 2000; Blumer, 1971; Snow & Benford, 1988). There are two main reasons why social actors might interpret and frame the same situation in different ways. Actors may interpret reality differently because they apply different primary frameworks, that is, a “schemata of interpretation” based on a set of beliefs and core values, to make sense of a given situation (Goffman, 1974). Alternatively, or in addition, actors may use frames strategically in order to influence the

¹ For example, during the hearing on mark-to-market accounting before the U.S. House of Representatives Subcommittee on Capital Markets, Insurance, and Government Sponsored Entities on March 12, 2009, its Chair Gary L. Ackerman (D-NY) pushed FASB Chairman Robert Herz and SEC Acting Chief Accountant James Kroeker to commit to a three week deadline to change accounting rules: “if you do not act, we will. The timeframe that you are starting out with, thinking you have the luxury of that much space is not acceptable … That can be done in three – it will be done in 3 weeks, can and will? [Herz replying “yes”] Can and will? [Kroeker replying “yes”].” See House Committee of Financial Services (2009) for the full transcript of the hearing.

² Equivalent terms are “mark-to-market” accounting (even though FVA is the broader concept), comptabilisation à la juste valeur in French, and Zeitwertbilanzierung in German.
interpretation and framing of the situation by other actors (Pan and Kosicki, 1993; Snow and Benford, 1988; Himick and Brivot, 2018). Irrespective of the reasons for actors’ use of different frames, “one can expect that the parties with opposing versions of events may openly dispute with each other over how to define what has been or is happening” (Goffman, 1974, p. 322). To trace the process of the construction of a public policy issue, we analyze the resulting “frame contest” (Goffman, 1974, p. 322), in which “frame sponsors” compete for the favor of the “frame target” (for related literature, see, e.g., (Benford & Snow, 2000; Chong & Druckman, 2007; Lorino et al., 2017).

Our analysis of the frame contest builds on 1,650 statements on FVA by 787 unique non-journalistic actors that appeared in British, French, German, and U.S. media articles between 2007 and 2009. We content-analyze each statement with regard to the three core framing elements established by Snow & Benford (1988): the attribution of blame (diagnostic framing), the recommendation to take a specific action (prognostic framing) and explanations for the blame attribution and treatment recommendations (motivational framing). We then draw on Solomons’ (1991) and Tinker’s (1991) discussion of different views on the role of accounting in society to link the frame elements, that is, the use of arguments, treatment recommendations and blame attributions, to different understandings of the purpose of accounting and financial reporting. As a consequence, we identify three distinct frames that actors used during the financial crisis: The “transparency frame” according to which FVA was merely reflecting economic realities and enhancing the financial reporting objective of decision-usefulness; the “faithful representation frame”, according to which FVA was reflecting a distorted reality and therefore undermined the objective of decision-usefulness; and the “financial stability frame”, according to which FVA was constructing economic realities (by stimulating risk-taking during economic upswings and forcing the sale of risky assets in economic downswings) and called for the consideration of economic consequences as an objective for accounting regulation.

Based on this material, we identify four distinct frame contests over the course of the fair value debate concerning (1) the extension of FVA to other financial statement positions, (2) fair value

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Note that we are only interested in identifying the frameworks that actors mobilize in the debate. We do not aim at identifying actors’ reasons for their use of different frames, i.e., whether they use frames strategically or because they had different underlying primary frameworks to begin with.
measurement problems arising from illiquid markets, (3) the responsibility of FVA for the financial crisis, and (4) the independence of standard setters.

The analysis of these frame contests reveals several important findings that advance our understanding of politicization processes in accounting regulation. First, we document differences in how accounting constituents frame accounting issues to place them on the agenda of public policymakers as compared to standard setters. Our analysis reveals that actors initially conformed with standard setters’ conventions as set out in their conceptual frameworks, that is, that “accounting problems must be constructed as appropriate for standard setting action” (Young, 1994, p. 86). By questioning the ability of fair values to faithfully reflect economic reality, actors constructed FVA as an accounting problem that standard setters needed to fix to meet their standard setting objectives. Standard setters, however, rejected the idea that fair values conveyed misleading information by framing FVA as a reflection of economic reality and measurement base that provides market participants with the most decision-useful information. Since addressing standard setters with their concerns proved ineffective, constituents elevated the accounting issue to a higher regulatory level by constructing FVA as appropriate for political action. This was achieved by framing FVA as an accounting rule that was able to construct detrimental economic realities. While the construction of accounting problems thus involves framing an accounting topic in terms of violating traditional accounting objectives (i.e., faithful representation of economic reality), the construction of FVA as a public policy issue neglected the boundaries of standard setters’ conceptual framework and raised attention to the potentially detrimental economic effects (i.e., financial instability) of the accounting rule – an issue that is relevant for public policymakers.

Second, we show how the conceptual framework generally serves standard setters as a “political resource in reducing the threat of government interventions” (Hines, 1989, p. 74; Solomons, 1983; Young, 1994, 2014). The actions of public policymakers imply that a political intervention in accounting standard setting can only be justified in two cases: either, via evidence that the standard setter does not conform to the objectives set out in the conceptual framework, or via the redefinition of accounting objectives. While European politicians’ justification for an intervention on the basis of concerns about IAS 39’s non-compliance with the objective of “comparability” is an example for the former, actors’ framing of FVA as constructing economic realities illustrates an attempt to defuse the standard setters’ means of defense by redefining the
objectives of accounting regulation. By tracing actors’ attempts to add financial stability to the set of accounting objectives, our analysis also responds to the call of Young (1994, p. 103) who suggests that accounting objectives “establish bounds for accounting change […] by limit[ing] the issues that can be included on the FASB [and IASB] technical agenda”, but leaves the analysis of potential changes to accounting objectives as a subject for future research.

Third, we shed light on the robustness of shared belief systems in society, which reflect the “core normative elements of financial accounting” (Power, 2009, p. 333) and how these belief systems affect accounting regulations. Drawing on Solomons’ (1991) and Tinker’s (1985) discussion of different views on the role of accounting, we show how opponents of FVA promoted the “radical view of accounting”, according to which standard setters should consider economic effects of their standards, in an attempt to replace the “traditional view of accounting”, according to which standard setters should exclusively focus on securing financial accounting’s ability to faithfully represent economic truth. By providing evidence on how value and belief systems guided different social actors in their perceptions of an accounting topic, including the standard setters themselves, we extend Baudot’s (2018) analysis of the relation between standard setters’ knowledge templates and standard-setting decisions. In particular, our analysis shows that standard setters persistently stipulated their belief in financial reports’ ability to mirror reality. With our analysis we also shed light on shared belief systems outside the standard setting organizations. We show that constituents increasingly mobilized the “financial stability” frame in response to the gradually deteriorating situation of financial markets and standard setters’ unwillingness to act. Yet, even though constituents succeeded in mobilizing public policymakers’ support for changing accounting rules, they failed in provoking a replacement of accounting conventions. As a consequence, constituents succeeded when pushing for changes that conformed with the traditional view of accounting (improving comparability and faithful representation), but failed when pushing for more severe regulatory changes, such as the abolishment of FVA or the reform of the standard setters’ oversight structures.

Fourth, our analysis of different actors’ use of frames over time also provides insights into the more “subtle ways in which power operates” (Arnold, 2009, p. 806). The debate on FVA offers an especially fruitful setting given that standard setters introduced the measurement base despite severe resistance of the financial services industry (Power, 2010), which is generally renowned for
its significant political power (Lavelle, 2013). In contrast to prior research that stresses the importance of actors’ economic incentives and power to influence standard-setting decisions successfully, our analysis indicates that different actors’ relative framing power affects the dynamics of a frame contest – including its “result” in terms of attracting political attention and ultimately triggering a political intervention. With regard to the importance of actors’ framing power for the construction of public policy issues, we show how contextual factors, such as the occurrence of “frame shifting events” (Lorino et al., 2017, p. 33), and the actor’s framing consistency (over time and with peers and other actors) support or suppress the resonance of different frames with public policymakers. Specifically, we show how financial crisis events enhanced the credibility of fair value critics, both by providing empirical credibility as well as by uniting the financial services industry to frame the issue of FVA consistently as a public policy issue. However, in the absence of concrete supportive evidence for the role of FVA in constructing economic realities, standard setters and their allies were able to prevent the entry of the financial stability objective in the standard setters’ conceptual frameworks.

Finally, by analyzing actors attempts to shape the dynamics of a public debate in order to expose accounting standard setters to public pressure, we provide insights into a means of political lobbying that has so far not been investigated (Walton, 2020; Zeff, 2016a).

2. Understanding the construction of public policy issues as a frame contest

Like other public policymakers, accounting standard setters rely on their constituents to raise attention to issues that warrant regulatory action (see e.g. FASB Chairman Russell Golden, 2020; for political science literature, see Birkland, 2001; Gusfield, 1981; Kingdon, 1984; Knoepfel et al., 2011; Parsons, 1995; Schattschneider, 1960). To trigger a regulatory change, actors need to communicate the need for change to the relevant policymaker. More specifically, they need to construct a problem that meets policymakers’ requirements for further consideration: “accounting problems are not seen to be simply ‘there’, rather they must be constructed as problems by participants in the regulatory space” (Young, 1994, p. 86). For example, to obtain access to standard setters’ agendas, an issue needs to be a technically solvable, collective (instead of

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4 See e.g. Durocher et al. (2007, pp. 30–32) for an overview of academic literature that follows the spirit of Sutton’s (1984) and Watts’ and Zimmerman’s (1978) economic theories to explain lobbyists’ participation in standard setters’ due processes.
individual) accounting problem (see e.g. Golden, 2020). In contrast to the construction of an accounting problem that may only affect a rather narrow group of actors, the construction of public policy issues demands that public policymakers perceive a situation as being problematic for society as a whole. Consequently, actors have to construct a collective social problem that may become a public policy issue in case policymakers decide to address the issue (Knoepfel et al., 2011; Hill, 2010; Gusfield, 1981).

The construction of a public policy issue requires the selection of “some aspects of a perceived reality [...], in such a way as to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation for the item described” (Entman, 1993, p. 52, original italics) – an activity known for as framing. Popularized by Goffman (1974), framing theory relates to individuals’ sense-making of a situation and offers an analytical framework to study how different actors frame an issue to promote or to prevent its consideration by targeted decision-makers. Actors’ ambition to raise a framing target’s attention for a particular issue suggests that actors use frames strategically to achieve their objectives (Pan & Kosicki, 2001; Snow & Benford, 1988). Yet, Goffman (1974) provides another explanation for the use of frames by different actors in the form of different “primary frameworks” that direct actors’ sense-making of a given situation. While some primary frameworks take the form of tacit schemata of interpretation, others materialize in the form of postulates and rules (Goffman, 1974, p. 21).

In the context of accounting standard setting, we conceptualize primary frameworks as actors’ normative belief systems about the purpose of financial accounting and its role in society. Based on the discussion between Solomons (1991) and Tinker (1985, 1991) we distinguish between three different belief systems (see Table 1): (1) The “traditional” view according to which financial accounting should aim at faithfully representing economic reality to provide decision-useful

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5 When examining the process of an FASB project on financial instruments, Young (1996, p.487) accordingly observes that “[d]uring the standard-setting process, only certain types of questions are asked and certain types of issues considered. Other questions and issues are ignored.”

6 Relying on institutional theory for her analysis of the FASB’s efforts to revise the financial instruments standards in the late 1980s and early 1990s, Young (1996) conceptualized the phenomenon of strongly held beliefs and ideas about accounting as “institutional thinking”. To make sense of FASB and IASB members’ contrary positions on a proposal to use FVA in the measurement of revenue, Baudot (2018) focussed on IASB and FASB members’ commitment to different “knowledge templates”, which “reflect values, beliefs, and assumptions about the way things work” (p. 662). Mobilizing framing theory to investigate a change process of management control practices in a Chinese state-owned enterprise, Yang & Modell (2015) analyze a contest between frames that were either embedded in local (Maoist) ideology and culture or in (Western) shareholder-focused ideology.
information, (2) the “radical” view according to which standard setters should consider the possible economic effects of their standards, and (3) the “activist” view according to which financial accounting should help the government and other regulators to realize its pursued regulatory goals. The traditional view purports that financial accounting is mirroring economic reality\(^7\) and directly aligns with both accounting objectives of decision-usefulness and accountability (or stewardship).\(^8\) In contrast, the radical and activist view acknowledge accounting’s role in the social construction of economic realities: “Accounting theory, like any social belief, is not merely a passive representation of reality, it is an agent in changing (or perpetuating) a reality” (Tinker, 1985, p. 25).

**TABLE 1**

If actors employ one particular primary framework to make sense of a certain situation, only a specific type of arguments and conclusions (those that align with the particular view of accounting) will define the debate over an accounting issue. In most cases, the construction of a public policy issue does however not resemble a conflict-free endeavor of a unified group of actors. Instead, the process involves a “power struggle between groups of actors” (Knoepfel et al., 2011, p. 136) given that the actor that successfully defines the problem will most likely also define the problem’s solution (Birkland, 2001; Blumer, 1971; Schattschneider, 1960). We therefore conceptualize the debate on FVA during the financial crisis as a frame contest, wherein different “parties with opposing versions of events [...] openly dispute with each other over how to define what has been or is happening” (Goffman, 1974, p. 322).

Frame contests often arise in situations in which actors have limited information about the nature of the current event. Crisis situations offer a fertile ground for frame contests (Boin et al., 2009), since they entail high uncertainties and it can take a considerable period of time until actors were able to analyze the new situation and agree on one interpretation of the present situation. Until such a “clearing of the frame” (see Goffman, 1974, p. 338) occurs, the frame sponsors’

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\(^7\) Despite acknowledging that “neutrality in accounting may not always be easy to secure, but without it the credibility of accounting is endangered” (Solomons, 1991, p. 287).

\(^8\) For definitions see for example Gjesdal (1981, p. 208): “(1) Financial statements may be of value to investors (in a broad sense) making investment decisions. I shall call this decision-making demand. (2) Investors usually delegate decision-making to managers. Then there may be a demand for information about the actions that are taken for the purpose of controlling them. This I shall call stewardship demand.”
“framing power” (Goffman, 1974, pp. 446–447) affects how the frame target interprets the situation (Chong & Druckman, 2007; Snow & Benford, 1988). Importantly, the frame sponsors ability to convincingly define the nature of a situation is not only a function of the characteristics of the sponsor, but also depends on the nature of the situation itself.

Overall, framing theory allows us to shed light on the construction of a public policy issue in conjunction with potential shifts in accounting belief systems over time: To construct a public policy issue, actors need to define a certain situation as problematic for the collective society. We conceptualize this process as a frame contest, wherein different actors compete for the acceptance of their frames by public policymakers. Actors’ use of frames thereby informs about their support for different primary frameworks (in our case, accounting belief systems such as the traditional or radical view of accounting). Actors’ framing power, that is, ability to convince the frame target to take desired actions, depends on the frame targets’ primary frameworks, the context of the situation and other actors’ framing power.

3. Primary frameworks and the issue of fair value accounting

At times, primary frameworks materialize in the form of postulates and rules (Goffman, 1974). In the context of accounting standard setting, the conceptual frameworks of the FASB and IASB act as primary frameworks as they define the objectives of financial accounting in order to “assist[s] the Board in the development of future [standards …] and in its review of existing” standards (IFRS Foundation, 2019, A19).9 The conceptual framework’s formal expression of the aims and intentions of financial accounting regulation equips standard setters with social legitimacy as it enables standard setters to justify their actions on the grounds of this explicitly defined rationale (Burchell et al., 1980). Both frameworks follow the traditional view and explicitly set the key objective of financial reporting as providing decision-useful information.

One of the key aspects in accounting is determining the amount at which assets and liabilities are initially recognized and subsequently measured. As a consequence, discussions about the

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9 For the FASB “the [conceptual] framework is expected to be a coherent system of concepts that flow from the objective of financial reporting. The concepts provide the FASB with a framework for selecting the transactions, events, and circumstances to be represented; how those items should be recognized and measured; and how they should be summarized and presented or disclosed in financial reports” Financial Accounting Foundation (2018, p. 1).
ability of different measurement bases to fulfill financial reporting objectives as defined in the standard setters’ conceptual frameworks are at the heart of accounting standard setting and have a long history of disagreement.\(^{10}\)

Today as well as during the financial crisis 2007-09, both U.S. GAAP and IFRS prescribe a mixed measurement approach for financial instruments. Depending on the characteristics or usage of the financial asset or liability, preparers are required to measure financial instruments using either amortized costs (often referred to as “historical costs”) or fair value measurements.

Amortized cost accounting uses expected cash flows and priced risks reflected in the discount rate that were quantifiable at the time of the initial recognition to account for assets or liabilities over their lifetime (Ryan, 2007). Because assets can never be written up beyond their initial costs, any hidden reserves might be used for earnings management purposes (e.g., by selling assets with hidden reserves while keeping the “bad” ones). Next to this more prudent yet less transparent approach on the asset value’s upper side, financial statement users may also face intransparencies on the asset value’s lower side in form of untimely loss recognitions (see Vyas, 2011; Gebhardt, 2016). In the 1970, parts of the accounting profession began to consider this lack of transparency as a “primary threat to the credibility of accounting standard setting” (Johnson 1988: 150) and began to advocate the use of current market values to better reflect economic realities.\(^{11}\) Based on these preceding groundworks to conceptually back the use of fair values, FVA for financial instruments was introduced into U.S. GAAP after the savings and loan crisis in the 1980s in order to “get the accounting right” (Young, 1995), i.e., to overcome flaws of amortized cost accounting.\(^{12}\)

FAS 157 and IFRS 13 define 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.” As a consequence, the fair value of a financial instrument “reflects current expectations of the cash flows and priced risks” (Ryan, 2007, p. 4, italics added) and financial statements reflect


\(^{11}\) For historical analyses on the shift in core accounting conceptions in the 1970s, see Zeff (1999, 2007, 2013, 2016b).

\(^{12}\) While, at first, U.S. GAAP only prescribed the disclosure of financial instruments’ fair value estimates, later standards (FAS 115 in 1993, FAS 157 in 2007) required the measurement of an increasing number of financial instruments at fair value.
changes in these expectations at the time they occur. FVA therefore underpins the information usefulness role of financial reporting by shifting the focus from “evaluating past actions and their consequences” towards “providing data facilitating prediction as input to various economically rational decision models” (Ravenscroft & Williams, 2009, p. 776).

Fair values for financial instruments shall be determined either (1) via prices for the identical asset or liability observed in active markets, or (2) but only if the latter is not available, via observed market prices for similar assets or liabilities, or by using other observable market inputs in valuation models, and (3) in case of missing market inputs, via unobservable firm-supplied inputs in these models. This general “fair value hierarchy” can be found under U.S. GAAP as well as IFRS. Whereas the first hierarchy level conforms to the term “mark-to-market” accounting, the latter two levels, in particular level 3, are often referred to as “mark-to-model” accounting. To provide a faithful representation of underlying economic transactions, mark-to-market accounting therefore builds on the assumption that capital markets are efficient (Power, 2010; Ravenscroft & Williams, 2009), whereas mark-to-model accounting builds on the assumption that unobservable market values can be reliably determined by financial statement preparers and verified by their auditors (Whittington, 2008; Smith-Lacroix et al., 2012).

Discussions about FVA involve a number of different arguments for why FVA may be good or bad (see also Laux & Leuz, 2009 for a review of arguments). Accounting constituents’ opinion on FVA can be linked to their beliefs about the primary role of financial reporting. In essence, proponents regard FVA as being more transparent and informative for users of financial statements and as providing an early warning system about firms’ risk exposures for regulators and investors (Laux & Leuz, 2009). From this perspective, FVA conforms to the traditional view of accounting and the objective of decision-usefulness. In contrast, critics challenged the use of fair values – especially for accountability purposes – on the basis of fair values’ inability to faithfully represent economic realities:

Historical cost is clearly a more accurate record of “what actually happened”. Current cost methods, in contrast, introduce arbitrariness: in choosing the base period, the commodity basket composing the index, and when to periodically update the index. [Fair value advocates’] … persuasive case for current cost accounting is not based on representational faithfulness, but its “relevance” to informing present decisions. (Tinker, 1991, p. 303)
Next to this critique on the incompatibility of FVA with the traditional view of accounting, which builds on doubts on fair values’ ability to faithfully represent economic realities, FVA faced criticism for its potential ability to construct economic realities. For example, in the early 2000s, the European banking industry and prudential regulators raised concerns about the verifiability of fair values derived from valuation models and warned that FVA might cause not only an increase in short-termism, but may also lead to pro-cyclical effects, i.e., “euphoria in a financial bubble or the panic in the markets in a time of crisis” (European Central Bank, 2004; Fédération Bancaire Française, 2002, p. 2). The perspective that FVA should be rejected because of its potential economic effects corresponds with the radical and activist view of financial accounting and, as such, exists outside the conceptual framework of IASB and FASB.

Along with informing about the process of constructing accounting issues as public policy issues, the conceptualization of the fair value debate as a frame contest aims at unravelling the fragility (or robustness) of accounting conventions. Instead of focusing on the exchange of different types of arguments, we identify distinct frames on the basis of these arguments and link actors’ use of different frames to their conceptions of the essential role and purpose of financial accounting and reporting. Table 2 provides an overview of how arguments relate to accounting assumptions and belief systems (i.e., primary frameworks).

**4. Methods**

To trace the process through which FVA was constructed as a public policy issue during the financial crisis, we focus on debate and argumentation (Majone, 1989) and extract our empirical material from news media content. The content of general audience media is argued to be “the most important indicator of the general issue culture” (Gamson & Modigliani, 1989, p. 3). A public debate in news media therefore documents the evolution of public policy issues more comprehensively than do alternative sources of information. In particular, responses to standard

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13 For analytical research investigating consequences of full FVA, see e.g., Allen & Carletti (2008) and Plantin et al. (2008).

14 See e.g., Giner & Arce (2012) who distinguish between conceptual and economic consequences arguments.

15 See also Young (1994, p. 88) who notes that the process of constructing regulatory actions as appropriate “is heavily mediated by language and the ways in which the participants discuss an accounting issue.”
setters’ invitations to comment on accounting issues hardly capture the construction of a public policy issue (or accounting problem) but rather reflect reactions to the standard setter’s suggested solution to an already accepted accounting problem. An analysis of private interactions with policymakers typically limits research opportunities to surveys or interview studies (see e.g., Georgiou, 2004; Orens et al., 2011), which are difficult to conduct in an international and political setting. Finally, alternative public media arenas do not allow for a feasible systematic and/or comprehensive collection of statements. We therefore analyze the construction of FVA as a public policy issue based on a systematic collection of statements on FVA for financial instruments from print newspaper articles published between January 2007 and December 2009.

Since the fair value controversy centered in France, Germany, the United Kingdom, and the United States (see e.g. André et al., 2009), we focus on all British, French, German, and US newspapers that are available through the databases Dow Jones Factiva, LexisNexis, WISO, and Frankfurter Allgemeine Archiv. We searched each database for articles that include the term “fair value” or “mark-to-market” (or French and German language equivalents), and at least one general accounting term (e.g., “accounting,” “IASB,” “FASB,” or “financial instrument”) and retrieved a total of 5,155 potentially relevant articles. We manually identified and excluded 1,207 duplicates and 1,958 articles that covered topics unrelated to the issue of FVA. In addition, we excluded 909 articles that did not contain any statement attributable to individual, non-journalist actors. Our final newspaper material comprises 1,081 newspaper articles that include 1,650

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16 For example, television or radio programs, blogs, or online articles are very costly to analyze systematically because databases like Factiva or LexisNexis do not exist. Social media channels like Twitter would lack comprehensiveness, since, e.g., the FASB and IASB did not open accounts until August 2010, reflecting the generally rather infrequent use of Tweets until 2010 (see http://www.internetlivestats.com/twitter-statistics/).

17 We added the last two databanks because Factiva and LexisNexis do not cover two important German financial newspapers, Handelsblatt and Frankfurter Allgemeine Zeitung.


19 News media serve a dual role by not only reflecting but also constructing social meaning; the news media are part of the process by which public policy issues may be constructed (Gamson & Modigliani, 1989). Since our analysis does not focus on the role of the media per se but rather on the construction of accounting issues by interested actor groups, we exclude commentaries from journalists. For similar reasons, we exclude statements that can only be assigned to organizations or abstract reference groups (e.g., “investors”, “banks”, etc.). These references do not provide additional information about the construction of the public policy issue by accounting constituents but rather exclusively reflect journalistic news reporting (or framing) practices.
statements from 787 unique non-journalist actors. The appendix lists all newspaper articles cited in the analyses.

To draw inferences about different actors’ framing behavior over time, we structured the empirical material in the following way. First, we considered the date when the actor-statement appeared in a newspaper article as the (approximate) date of frame sponsorship. Second, we collected information about each of the 787 unique actors with respect to his/her nationality and professional affiliation based on the information provided in the article.20 Third, using the qualitative data analysis software MAXQDA, one of the authors content-analyzed each individual actor-statement with respect to the three core framing tasks established by Snow & Benford (1988): (1) the identification of a problem, blameworthy causality, or agent (diagnostic framing), (2) the suggestion of a solution to the problem (prognostic framing), and (3) the provision of a rationale for the suggested solution (motivational framing). We then analyzed and structured our coded empirical material by identifying different types of frames of FVA that align with different beliefs on the purpose and role of financial accounting, that is, the primary frameworks as defined in Table 2. Along the lines of the discussion in section 3, we identified three types of frames which we label “transparency frame”, “faithful representation frame” and “financial stability frame” (see Table 3).

Throughout the writing process, we checked the appropriateness of our quotes by reviewing the quotes’ context within the newspaper article. These checks included searching for and using the original sources of information cited in the newspaper articles whenever possible. In other words, our analysis also draws on material other than our set of actor-statements retrieved from newspaper articles if such material was relevant and original.

20 The following categories of actors’ professional affiliations emerged from the empirical material: (1) politicians, (2) representatives of the financial services industry, such as banks and insurance companies, (3) analysts and investors, (4) experts, such as academics, advisors, and auditors, and (5) regulatory agencies, such as the representatives of financial market and prudential regulators or the FASB, IASB, or domestic accounting standard setters. All actors with other or unclear professional affiliations were categorized as “others.”
5. The politicization of FVA during the global financial crisis of 2008-09

5.1 Frame contest on extending FVA (early 2007 to early 2008)

Since its advent to IFRS and U.S. GAAP standards on financial instruments, FVA has been a prominent topic on the standard setters’ agenda. Due to the IASB’s and FASB’s joint endeavors to develop new fair value measurement guidance, to update their conceptual frameworks and to converge their financial instruments standards (FASB & IASB, 2006), accounting constituents frequently faced invitations to comment on the Boards’ thoughts on FVA in 2006 and early 2007. Even though the Boards repeatedly emphasized that their project on improving fair value measurement guidance was not aiming at extending the use of fair value measurements (FASB & IASB, 2006, p. 3; IASB, 2006a, paragraph 6), constituents suspected that the standard setters’ work to improve the conceptual basis for model-based fair value estimates aimed at extending FVA to assets and liabilities that were not frequently traded (see e.g. Whittington, 2008).

In particular, constituents challenged two assumptions that were inherent in the IASB’s discussion paper on fair value measurement guidance which built on FAS 157 (IASB, 2006a): (1) that efficient markets were available for most transactions and (2) that model-based fair values can faithfully represent the transaction price in a perfect market (see e.g. UK Accounting Standards Board in Financial Times [March 7, 2007]). Although fair value skeptics broadly accepted the application of FVA to “an asset or liability [that] is managed on a fair-value basis and has a deep, liquid market from which to source more objective value”, they rejected the use of FVA on other assets given “the certainty that it [a fair value not derived from transactions on an efficient market] is a distortion of reality” (Charles Gilman, accounting policy advisor at the American Bankers Association (ABA) in American Banker [March 30, 2007]). The reliance on managements’ estimates (to determine model-based fair values) concerned various groups of constituents who predicted a loss of the objectivity of financial statements given that “people are [able to] pick numbers out of thin air” (Jack Zwingli, CEO of Audit Integrity in National Underwriter [December 10, 2007]; see also accounting academic Karlheinz Küting in Frankfurter Allgemeine Zeitung [March 12, 2007]; PCAOB member Charles Niemeier in The Wall Street Journal [April 18, 2007]).

To address constituents’ concerns on the subjectivity and lack of comparability of model-based fair values, the standard setters had worked on providing more binding guidelines regarding
mandatory disclosures on level 2 and 3 fair values (IASB, 2006b, p. 7). Standard setters therefore defended SFAS 157 that became effective in November 2007 by arguing that investors “would rather have a current estimate with adequate disclosure of the subjectivity than no new information about how the value of an investment has changed” (FASB member Leslie Seidman in The Wall Street Journal [April 18, 2007]), while other constituents welcomed the Boards’ efforts to increase transparency and comparability by establishing a measurement framework:

Now, the assumptions are disclosed, where before they weren’t – you can see if the assumptions are reasonable … You didn’t have any way to judge them in the past. (Professor Rebecca Shortridge in American Banker [December 31, 2007]; see also e.g. analyst Jack Ciesielski in The Wall Street Journal [April 18, 2007] and Barron’s [April 30, 2007], consultant James Hankins in Pittsburgh Post-Gazette [July 25, 2007]).

With the release of invitations to comment on the exposure drafts and discussion papers concerning IFRS for SMEs, insurance contracts, and financial instruments in February 2007, May 2007 and March 2008 (IASB, 2007a, 2007b, 2008a), the IASB confirmed constituents’ concerns that it was considering to substantially increase the use of fair value measurements. In particular, in their invitation to comment on the discussion paper on “Reducing complexity in reporting financial instruments,” the Boards outlined “why fair value seems to be the only measurement attribute that provides relevant information for all types of financial instruments” (IASB, 2008a, IN9). As already indicated in the update of their Memorandum of Understanding (MoU) from February 2006,21 the Boards’ took care to highlight that their proposal to increase the use of FVA aligned with their conceptual frameworks that defined criteria for the relevance of accounting information (see e.g. IASB, 2008a, paragraphs 3.17, 3.25-26, 3.32). The discussion paper further exclusively focused on conceptual arguments when discussing the concerns about FVA (IASB, 2008a, paragraphs 3.40-80) and implicitly implied that concerns about adverse economic consequences were not relevant for the standard setters’ decision-making process.

Overall, the episode points to the standard setters’ efforts to constrain the frame contest on the extension of FVA to frames that aligned with the traditional view of accounting. The episode further indicates that, in 2007, the large majority of frame sponsors adhered to the boundaries defined by the standard setters’ conceptual frameworks. Depending on their primary focus on

21 “Any proposals regarding increasing the use of fair value accounting will be addressed in the context of the Conceptual Framework and other projects on the FASB’s and IASB’s respective agendas” (FASB & IASB, 2006, p. 3).
decision usefulness versus faithful representation, frame sponsors framed FVA as being the best available alternative (i.e., the *transparency frame*) or framed FVA as being problematic in illiquid markets (i.e., the *faithful representation frame*).\(^{22}\) The adherence to the standard setters’ “rules of the game” indicates that the IASB’s and FASB’s constituents considered the standard setters as targets of their frames.\(^{23}\)

5.2 Frame contest on unfolding problems with the measurement of financial instruments (late 2007 to early 2008)

In August 2007, actors started to debate problems arising from existing FVA rules in conjunction with the decreasing liquidity in financial markets. The first-time implementation of FAS 157 for fiscal years ending on or after November 2007 raised numerous application questions among auditors who sought to minimize their litigation risk and their clients who sought to avoid excessive loss recognitions on their portfolios.\(^{24}\) Although accounting standards FAS 157 and IAS 39, in theory, allowed for the deviation from market prices in case of inactive markets,\(^{25}\) in practice, auditors followed the general directives of the standards to give priority to observable market information and asked their clients to use observable market prices, even if based only on a few or untimely trades or quotes, as inputs for the determination of the fair value of financial instruments.\(^{26}\)

\(^{22}\) For an exception see Noël Amenc, director of the Edhec Risk and Asset Management Research Centre in Les Echos [June 18, 2007], commenting on the release of the IASB’s discussion paper on insurance contracts (translated): “The interaction of accounting and prudential regulations proves to be an ‘explosive cocktail’ for … [various market] players.”

\(^{23}\) This is in line with constituents’ rare use of the news media as a platform to disseminate their frames and to mobilize the support of allies (see Figure 1). As an exception, see Ian Mackintosh, chair of the UK ASB in the self-authored Financial Times [May 10, 2007]: “I would urge all those with an interest in financial reporting - companies, auditors, users and regulators - to get engaged in the debate.”

\(^{24}\) See e.g. Global Insight economist Brian Bethune in Investor’s Business Daily [March 5, 2008]: “Sarbanes-Oxley is putting auditors’ feet to the fire … [T]here’s some risk that auditors will go overboard [by forcing firms to recognize losses].” See also Financial Times Deutschland [September 28, 2007].

\(^{25}\) SFAS 157 (para. 24) abstained from bright-line rules and defined an active market as “a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.” Further guidance (para. 25) stated that “[i]n some situations, a quoted price in an active market might not represent fair value at the measurement date.” See IAS 39.AG71 for similar guidance.

\(^{26}\) “The auditors under 157 are establishing a high hurdle. They presume that if there are several transactions in a market, then these are willing sellers and willing buyers – and therefore, the value that you have to use …. You had better have a good reason for deviating from market indicators, even if the market is characterized by very light trading” (Neri Bukspan, chief accountant at Standard & Poor’s in American Banker [December 31, 2007]).
By the end of 2007, a considerable part of the banking community still agreed with auditors, investors and analysts\(^{27}\) that fair values derived from bank managements’ idiosyncratic assumptions impedes the comparability of financial statements across firms and fails to faithfully represent the true value of firms’ financial instrument positions.\(^{28}\) Accordingly, Josef Ackermann, the chairman of the Institute for International Finance (IIF) and CEO of Deutsche Bank, and the former ABA president, Don Ogilvie, insisted in September 2007 and December 2007, that banks should continue to employ observable market values to determine the value of their positions, since the use of market values provided more useful information to market participants than the use of internal models:

The crucial question in the next few days and weeks is, how do you mark the positions? I can only hope that we do not muddle through – that we mark them to market …. That gives the reassurance and the stability back to the system. Because people will say ‘OK, we have seen that people have their positions marked properly’ and … hopefully markets will recover and some of these price levels (will) come back. (Josef Ackermann, CEO of Deutsche Bank and chairman of the IIF in Financial Times [September 13, 2007])

Fair-value accounting will help significantly in providing the transparency the market needs to make decisions and help a clearing mechanism emerge for transactions at the end of each business day. (Don Ogilvie, ABA president and chief executive from 1985-2005 in American Banker [December 14, 2007])

At the beginning of 2008, major bank representatives therefore largely agreed with standard setters who believed that market-price-based fair values conveyed most useful information to investors (see e.g. David Tweedie, IASB chairman, in Les Echos [January 10, 2008] and Robert Herz, FASB Chairman in The Wall Street Journal [March 1, 2008]). This belief in turn built on the efficient market hypothesis according to which it was “wrongheaded thinking” to “complain

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\(^{27}\) See Warren Buffett labelling the use of model-based fair values as “marking to myth” in Financial Times [September 17, 2007] or analyst Alan Brochstein, principal at research firm AB Analytical Services, in Crain’s New York Business [September 10, 2007]: “There’s a great deal of latitude in valuing these assets, and I’m looking for proof that they are worth what brokerage executives say. … [Merrill Lynch, Morgan Stanley, Bear Stearns] are black boxes …. No one knows what their balance sheets really look like.”

\(^{28}\) See an anonymous banker on the lack of comparability of the values of banks’ financial instruments in Financial Times [September 17, 2007]: “It is going to be difficult to work out whether Lehman has calculated its numbers on the same basis as the other firms.” Moreover, European banks suspected their U.S. competitors to hide losses by applying level 3 measurements instead of observable market inputs. See Bob Janjuah, chief credit strategist at Royal Bank of Scotland in The Sunday Times [November 11, 2007], calling the use of level 3 accounting by U.S. competitors “marked to make-believe”, and rejecting the idea that losses were not reflecting economic realities: “Forget $50billion or $100billion. This credit crisis, when all is out, will see $250billion to $500billion of losses. And for all those who think it’s all priced in, Wake Up. We are, at best, not only still in the first half of the game, we are still in the first 15 minutes of a 90-minute game.”
about the market making a mistake” (see e.g. Stanford professor Durrell Duffie in American Banker [January 2, 2008]). As a consequence, standard setters believed that accounting information derived from market prices were merely reflecting economic realities:

Fair value in a credit crunch is more difficult, for sure, but what’s the alternative? We certainly don’t want people to be cooking the books as they used to by creating reserves and smoothing earnings …. I would make the case that in the long run, the damage of being able to hide losses is far worse, we saw this in the (1980s) savings and loans crisis in the US where accounting hid the scale of the problem. You need fair value to get to the truth: the facts are the facts …. People (should) take the writedown now and, if markets come around again, they can mark it up again. (Tom Jones, IASB vice-chairman in Financial Times [September 13, 2007])

The current crisis of confidence clearly roots in the uncertainty regarding the actual amount of [firms’] losses. Some people say that the losses are artificial since asset prices were too low, but that’s the price that the market believes to be correct. Those who are convinced that asset prices are underpriced, should rush to buy those assets, but as far as I can see, they are not doing so. (David Tweedie, IASB chairman, in Les Echos [January 10, 2008])

With the increasing tension on capital markets by March 2008, however, the financial services industry started to urge for a deviation from the strict mark-to-market dogma towards the broader acceptance of model-based fair values. Challenging the idea that fair values were able to faithfully represent the economic value of infrequently traded instruments, actors now questioned the adequacy of the efficient market hypothesis, arguing that current market prices hardly reflected reality:

If you are in the medical business, you want to be sure that the thermometer is the right one for benchmarking things properly. The accounting systems in the economy are the thermometer, and I’m not sure their measurement scale is the right one today. (Henri de Castries, CEO of Axa in Financial Times [February 29, 2008])

Fair value accounting is a utopian concept that traces its intellectual roots back to the same origins as efficient market theory …. Unfortunately, the proponents of fair value accounting ignored the invocations of classical theorists who stated that liquid markets are a necessary condition for using market prices …. Fair value accounting is a good idea in theory, but like
most good ideas it is difficult to implement. (R. Christopher Whalen, co-founder of Institutional Risk Analytics in Financial Times [March 6, 2008])

You can see (bankers’) point that the market is irrational right now …. If you look at some credit derivatives right now, their prices are consistent with the assumption that a huge number of very well regarded firms are going to go bust in the next few years, which won’t actually happen unless you believe – and very few really do – that we’re heading for a complete meltdown of the financial system. (Tony Clifford, Ernst & Young partner in Financial Times [March 14, 2008])

On March 14, 2008, the release day of its annual report, which informed about net realized capital losses of $3.6 billion and unrealized market valuation losses of $11.5 billion for the year 2007 (AIG, 2008), AIG urged standard setters to revise FVA rules by allowing the use of more entity-specific assumptions for the determination of fair values (Financial Times [March 14, 2008]). By the end of March 2008, and after JP Morgan Chase acquired Bear Stearns at a share price of $2 to prevent its bankruptcy (Sorkin, 2008), many more actors joined the chorus of voices calling for relaxations of FVA rules – either in terms of allowing for the broader user of model-based fair values or for the temporal or complete suspension of FVA (see next episode). At the end of March 2008, ABA president Edward Yingling, however, still emphasized that it was “important to find the bottom quickly and not allow losses to be hidden and strung out” and that “accounting should not be subject to political influences” (see American Banker [March 28, 2008]). His international counterpart, IIF chairman Josef Ackermann, likewise still abstained from urging standard setters to immediately change their accounting standards but adhered to the transparency frame according to which FVA was providing the most reliable information:

This practice [FVA] has proven to be difficult in illiquid markets. … [However, at] this point in time, starting a fundamental discussion would be devastating because this would create additional uncertainty. (Josef Ackermann in Süddeutsche Zeitung [March 27, 2008])

Overall, at the beginning of 2008, frame sponsors who contested on deviating from mark-to-market accounting interpreted the unfolding problems with the measurement of financial

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29 See also Professor Joseph Mason from Drexel University in Philadelphia: “Only a very small portion of the market has deep prices. Academics who sit in their offices think that markets are deep. Get outside of the couple of hundred most active stocks on the NYSE and the fallacy becomes apparent” and Sylvain Raines, lecturer at Baruch College in New York: “The Chicago School of Economics has been telling us for a century that price and value are identical, i.e. that they are the same number . . . If we do not recognise the fundamental difference that exists between price and value, then we are doomed,” both in Financial Times [March 6, 2008].

30 Yet, Yingling called for the start of a debate to determine the structure of the “post-crisis financial markets” (see American Banker [March 28, 2008]).
instruments from the perspective of the traditional view of accounting. Standard setters’ transparency frames competed with frames that challenged the faithful representation of fair value measurements. From the latter perspective, neither model-based fair values nor market-price-based fair values were able to reflect economic reality: Whereas model-based fair values suffered from managerial discretion, market-price-based fair values suffered from their reliance on distorted market prices. Fair values measurements therefore violated the traditional goal of providing decision useful information, since the provided information was no faithful representation of economic reality. From the perspective of fair value supporters, however, market prices still reflected economic realities, despite a decrease in trading volume. Standard setters and other fair value proponents therefore believed that fair value measurements that built on market prices provided useful information to investors, since they transparently informed about the actual performance of firms’ financial investments. Given their strong reliance on their conceptual (or primary) framework and the implicitly inherent efficient market hypothesis, standard setters were unwilling to interpret the situation as problematic and refused to accept that FVA constituted an accounting problem that required immediate action. Furthermore, the missing consistency in bank representatives’ use of frames – where the industry representatives used the transparency frame and few other individuals used the faithful representation frame – undermined the effectiveness of fair value critics’ frames to convince the standard setters to revise their rules (Benford & Snow, 2000).

5.3 Frame contest on responsibility of FVA for the financial crisis (2007 to October 2008)

Even though actors discussed difficulties with determining fair values in illiquid markets and standard setters’ FVA related proposals, in 2007, only few actors raised attention to the possibility that FVA rules could themselves contribute to the turmoil on financial markets.31 This rapidly changed with the intensification of the crisis situation in early 2008 (see Figure 1 for the US and Figure 2 for Europe for an overview).

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31 Next to Professor Stella Fearnley and Professor Shyam Sunder in Financial Times [August 23, 2007], all other exceptions include French actors: Professor emeritus and former BNP Paribas president André Lévy-Lang in La Tribune [September 26, 2007], two representatives of the French Association of investors (AFIC) in Les Echos [October 12, 2007], George Pauget, CEO of Crédit Agricole in La Tribune [December 19, 2007], and Alain Chaussard, CEO of REIT Affine in Les Echos [December 27, 2007].
The argument that FVA might exacerbate economic booms and busts had long circulated among prudential regulators. For example, at the BIS conference in June 2007, Tobias Adrian from the Federal Reserve Bank of New York and Princeton Professor Hyun Song Shin presented empirical research findings that suggested that FVA amplifies banks’ credit cycles (Adrian & Shin, 2008). In her role as IASB member and Stanford professor, the paper’s discussant, Mary Barth, however strongly rejected the idea that accounting information could have procyclical effects. In turn, she emphasized standard setters’ view that accounting information was meant to reflect economic realities – a purpose that especially FVA was able to fulfill. Consistent with the traditional view of accounting, Barth asserted that it was not the task of standard setters to consider potential effects on financial stability:

As an accountant, … I feel compelled to object, on behalf of my professional colleagues, to being blamed for procyclical leverage. … Procyclical leverage is not caused by mark to market accounting. Rather, mark to market accounting reveals it. Thus, if procyclical economic leverage is a problem for the financial system, financial market regulators need to focus on how to deal with the undesirable procyclical effects. (Mary Barth in Adrian & Shin, 2008, pp. 27–29)

However, with the further tightening of credit markets, banks and insurance companies increasingly started to challenge the premise that accounting was merely reflecting economic reality. From their perspective, the current market developments were consistent with the argument that accounting was creating reality. Both U.S. and European banks argued that the market dive forced them to recognize huge losses which in turn demanded the sale of assets at unfavorable prices in order to raise funds to meet targeted capital ratios. Banks’ fire sales of assets resulted in further decreases of the assets’ market values, forcing even more loss recognitions and fire sales (see e.g. Mark Sullivan, AIG CEO in Financial Times [March 14, 2008]; Stephen King, managing director of economics at HSCB in The Independent [March 17, 2008]). This line of argument aligned well with fair value skeptics’ concerns about destabilizing effects of FVA which had been already raised in the 1990s and early 2000s when the FASB and IASB respectively introduced FVA to U.S. GAAP and IFRS.32 In some cases, industry officials’ “behind the scenes” lobbying

32 See e.g. the letter of French president Jacques Chirac to Romano Prodi, president of the European Commission, seeking to stop the adoption of IAS 39 due to suspected negative economic consequences (Alexander, 2006, pp. 79–80). See also European Central Bank (2004).
activities to push for a reform of FVA rules (see Financial Times [March 14, 2008]), therefore fell on fertile ground in early 2008:

I have always been skeptical about these modern measurement methods – especially about the move towards the mark-to-market principle …. The obligation to measure [assets] at their market prices often unnecessarily aggravates an already difficult situation. (EU Commissioner Charlie McCreevy in Financial Times Deutschland [February 28, 2008], translated)

I have heard from many people that that valuation they make, is artificially low. And that further exacerbates. It’s a vicious cycle, because then they don’t have the capital, they can’t do any more lending and everything is frozen up. (Democratic Senator Charles Schumer in U.S. Senate Committee on Banking, Housing, and Urban Affairs, 2008, p. 34)

We are witnessing an unprecedented situation as banks and investors try to determine the appropriate value of the assets they are holding and there is widespread concern that this approach is exacerbating the credit crunch. (John McCain, Republican presidential candidate in American Banker [March 26, 2008])

Standard setters’ responses continued to build on the assumption that markets were providing useful information about the “true economic value” of financial instruments. Like investors and other regulators, standard setters pointed out that deviating from mark-to-market accounting would undermine the transparency of accounting information. According to fair value proponents’ narrative, deviations from FVA could therefore increase investors’ uncertainty about bank’s actual economic performance even more and could unnecessarily prolong the crisis.

Although fair value has its problems, it does, through the market, have a disciplining effect on an institution’s lending and investing decisions. Using historical cost can delude investors that all is well [and can delay the economic recovery] (as was seen with Japanese banks in the 1990s). (David Tweedie, IASB chairman in Financial Times [March 20, 2008])

I understand your concern [that FVA could result in an undervaluation of asset positions], Senator [Schumer], but the risk on the other side is that if you do too much forbearance or delay mark to market, that the suspicion will arise among investors that you are hiding something. (Ben Bernanke, chairman of the Federal Reserve in U.S. Senate Committee on Banking, Housing, and Urban Affairs, 2008, p. 35)

Marking to market is a good thing. … The old system hid too many problems. Accounting didn’t create these problems; leverage of 33 to one did. (Wilbur Ross, American investor in The New York Sun [March 27, 2008])

These frames likewise resonated at the political level. For example, U.S. Senator Jack Reed argued that FVA made sure “to realistically confront what’s happening to you much quicker” (The
On the day before the G7 Finance ministers met on April 12-13, 2008, the French Finance Minister, Christine Lagarde, stated in a self-authored Financial Times article that “[u]nder the present circumstances, changing the thermometer to reduce the heat is not the way to go,” even though “the difficulties in valuing certain assets in severely stressed markets should be acknowledged and rapidly tackled by standard setters” (Financial Times [April 11, 2008]). Lagarde’s statement aligned with the statement of European Ministers for Economic and Financial Affairs (ECOFIN) on April 04, 2008, which urged “standards-setters to ensure that the financial reporting framework functions properly with clear guidelines on valuation that can be applied consistently across institutions” (ECOFIN, 2008b) and indicates that by April 2008, European politicians largely believed in the information usefulness of FVA and only called for improvements of rules to ensure that accounting information (faithfully) represented economic reality.

Despite recent statements by key financial industry representatives that FVA was now “pouring fuel on the fire” (ABA president Edward Yingling in Handelsblatt [April 7, 2008]) and therefore “today’s actually biggest problem” (IIF chairman Josef Ackermann in Financial Times Deutschland [April 10, 2008]), as well as recently issued reports by the International Monetary Fund (IMF) and the Financial Stability Forum (FSF) stating that FVA could result in “exacerbating economic weakness” (IMF, 2008, p. 76; FSF, 2008), public policymakers abstained from exerting significant pressure on standard setters. Even though some industry representatives called for a temporal suspension of FVA, especially German actors voiced ideas on changes to FVA rules. See e.g. Klaus-Peter Müller, CEO of Commerzbank and president of the Association of German Banks (BdB) in Süddeutsche Zeitung [March 27, 2008] calling for granting banks the possibility to reclassify securities from FVA into historical cost categories, at values from the beginning of the year (see also Börsen-Zeitung [April 8, 2008] for a summary of the BdB policy paper). See three German EFRAG members in Financial Times [April 3, 2008] suggesting the use of a one-year moving average of historical market prices.

We have identified the following recommendations among the immediate priorities for implementation within the next 100 days: … [S]tandard setters should initiate urgent action to … enhance its guidance on fair value accounting, particularly on valuing financial instruments in periods of stress. (United States Treasury, 2008)
The request to work on an improvement of FVA guidelines within the next 100 days caused a dilemma for the standard setters who continued to believe in the efficiency of markets and therefore the virtues of FVA as a faithful representation of economic values.\(^{34}\) In May 2008, in response to the G7 request to revisit fair value measurement practices, the IASB established an Expert Advisory Panel comprising representatives of major financial institutes and Big4 auditors (IFRS Foundation, 2008). The FASB continued to rely on the work of its Valuation Resource Group that had been established in 2007 (FASB, 2011).

Before the panel was able to present its final report in October 2008 (IASB Expert Advisory Panel, 2008), the financial crisis dramatically intensified (see Figure 1 and 2) to the point of becoming the biggest economic crisis since the Great Depression in the 1930s. By mid-September, several large U.S. financial institutions either had filed for bankruptcy (Lehman Brothers) or had been rescued by the government (e.g., Fannie Mae, Freddy Mac, and AIG) or peers (e.g., Merrill Lynch’s acquisition by Bank of America). By late September, European governments likewise needed to take unprecedented action to prevent financial institutes’ bankruptcies (Bank for International Settlements, 2009). In early October, the U.S. government set up the $700bn Troubled Asset Relieve Program (TARP) and the British, German and French government provided $850bn (£500bn), $670bn (€500bn) and $480bn (€360bn) of additional loans and guarantees.

These developments arguably affected the appeal of different frames to policymakers that were forced to act and respond to the crisis, by enhancing (undermining) the credibility, and therefore framing power, of fair value critics (supporters). In the U.S., the banking industry urged politicians to push the FASB for fast changes of FVA rules (see e.g. The Washington Post [September 23, 2008]). For the ABA president Edward Yingling, the accounting rules were creating realities, instead of reflecting them\(^{35}\) and therefore “have made the crisis much, much worse than it needed

\(^{34}\) See e.g. IASB chair David Tweedie on June 5, 2008 in IASB (2008b): “Now, interestingly enough, in the present crisis, people are always saying, well, the market’s too low. Well, … [g]et in and buy. Now, why aren’t they? … Are they just perhaps concerned that they’re not right? So this is why fair value does actually reflect what is going on” or in The Daily Telegraph [August 11, 2008]: “Fair value might not be perfect but it is the best we have got. Values have gone down, so you have to write them down. Do you want transparency or obscurity?” The U.S. standard setter largely abstained from explaining its position. Yet, other fair value proponents, such as the CFA Institute, backed the maintenance of FVA by repeatedly warning that a “shoot-the-messenger mentality will not restore investor confidence” (see Investment News [April 21, 2008]).

\(^{35}\) “Instead of measuring the flame, they’re [FVA rules] pouring fuel on the fire” (Edward Yingling in The Washington Post [September 23, 2008]).
to be” (The Washington Post [September 23, 2008]). On September 30, 65 members of Congress sent an open letter (only) to the SEC (bypassing FASB, which is unusual) urging it to “immediately shore up the capital of the nation’s banking system by suspending the use of fair value accounting.” From these Congressmen’s perspective, fair values did not faithfully represent the “true economic value” of banks’ assets which was why FVA was threatening financial stability by “exacerbating economic downturns by hamstringing the ability of banks to make loans to consumers and businesses” (U.S. Members of Congress, 2008). In a joint response to the Congressmen’s letter, three central U.S. organizations that represent U.S. auditors, investors and analysts underscored their belief in the information usefulness of fair values:

Fair value accounting is only a means of communicating information that is important to investors and other market stakeholders, it is not the underlying cause of the current economic crisis. In the interest of investor confidence and the health of our capital markets and overall economy, we urge the SEC to resist calls from those with a questionable commitment to transparency and to reject any proposal that would suspend fair value accounting. (Center for Audit Quality et al., 2008)

On the same day the SEC received the Congressmen’s letter, the SEC and FASB released immediate clarifications on fair value measurement rules “to help preparers, auditors, and investors address fair value measurement questions that have been cited as most urgent in the current environment” (SEC Office of the Chief Accountant and FASB Staff, 2008). Ten days later, on October 10, 2008, the FASB issued an official staff position, SFAS 157-3, that aimed at reducing uncertainties over the adequacy of using model-based instead of market-based inputs for the determination of fair values.

In Europe, the market turmoil of September 2008 resulted in similar political reactions. Chairing the Council of the European Union, French president Nicolas Sarkozy urged his colleagues to introduce “flexibility” into accounting rules,36 a plan that was however not supported by UK Prime Minister Gordon Brown (see e.g. Financial Times [October 4, 2008]). Still, on September 29, the IASB learned about the plan of the European Commission to relax FVA rules (Camfferman & Zeff, 2015, p. 408). The Commission’s plan became more concrete on October 4, 2008, when the

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36 In a speech on September 25, 2008, Sarkozy announced that “it was going to be necessary to investigate the practice of measuring assets at their market prices, since the practice had proven to be destabilizing in case of a crisis” (Beaufils, 2011).
European members of the G8 (France, Germany, Italy, and the United Kingdom) reached the consensus that IFRS should allow for retroactive reclassifications from fair value into amortised cost categories “by the end of the month” (Palais de l’Élysée, 2008). As made clear by Jose-Manuel Barroso, president of the European Commission, the initiative aimed at establishing a level playing field among European and American banks who allegedly benefitted from the possibility to reclassify assets when applying U.S. GAAP.37

First of all, I would like to applaud and make tribute to … the common, joint determination to coordinate European efforts in order to shore up strength and stability and confidence. Now, more specifically, in respect of the Commission’s work, I am happy to note that we now have consensus among all the participants of this meeting to first speedily make a proposal to change accounting rules and standards to avoid European banks finding themselves disadvantaged as compared to other banks. (Jose-Manuel Barroso, president of the European Commission, in C-Span, 2008, at minute 10:40)

In contrast to U.S. politicians, European political leaders thus agreed on pushing for a change of accounting rules on the rational of ensuring comparability of financial statements – a goal supported by the standard setters’ conceptual framework – and on the basis of ruling out competitive disadvantages by the use of IFRS – a goal that aligned with the European IAS Regulation of 2002 (Camfferman & Zeff, 2015, p. 407). Despite that U.S. banks had not used the reclassification option under FAS 115 (Camfferman & Zeff, 2015, p. 408),38 the necessity to ensure comparability was more difficult to reject than the full suspension of FVA or introducing a rolling average.39 On October 4, the “comparability argument” therefore allowed European political leaders to avoid taking a clear position with regard to the transparency versus financial

37 Camfferman & Zeff (2015, p. 406) trace the roots of the idea back to the IIF which suggested to allow for reclassifications in April 2008. By June 2008, European actors started to point to the option under SFAS 115 to reclassify assets under rare circumstances (Camfferman & Zeff, 2015, p. 407). The issue was elevated to the French president via a commissioned study by policy advisor René Ricol. The report stated that FVA was likely to have procyclical effects, but that it was “not recommended that accounting standards be changed in times of crisis. … [Yet, a]t present, it is important to ensure that a level playing field between European and US rules is achieved (e.g. the above reclassification is admissible in the USA but not in Europe)” (Ricol, 2008, p. 53).
38 Laux & Leuz (2010) show that only one major bank (Citigroup) was using the U.S. reclassification option.
39 On October 2, in an open letter to French president Nicolas Sarkozy, the CFA Institute “urge[d] EU leaders [to] keep fair value rules in place so that investors continue to have the most relevant or faithful representation of economic reality with which to make their decisions” (CFA Institute, 2008b). To support this claim, the CFA Institute conducted an overnight poll, which showed that the majority of its European members objected the suspension of FVA under IFRS (CFA Institute, 2008a). See also e.g. Cazenove Equity analyst Peter Elwin rejecting modifications of IAS 39 in The Guardian [October 3, 2008]: “Denying the existence of the crocodile, or calculating its proximity based on a six-month average, would not have kept Captain Hook in good health for long.”
stability frame that was not unanimously embraced by all EU leaders, such as UK Prime Minister, Gordon Brown:

Some people are looking for a get-out-of-jail free card and an easier way of registering their financial position than is the truth. … [We aimed at ensuring] a level playing field … [instead of offering] a breathing space. (Gordon Brown in Financial Times [October 14, 2008])

Only few days later, it became clear that European public policymakers aimed at allowing European banks to retroactively reclassify assets from fair value to amortised cost categories by mid of October by means of a carve-out to IAS 39. For the French Finance Minister, Christine Lagarde, president of ECOFIN, “[t]he point is not to question the accounting rules. A poorly performing mechanism must be substituted by a well performing one” (Les Echos [October 14, 2008]). To avoid a situation in which banks could reclassify assets without making substantial disclosures, the IASB sacrificed its normal due process and amended IAS 39 on October 13, allowing for reclassifications, even with a retroactive effective date of July 1 (Camfferman & Zeff, 2015, p. 413). On October 16, the IASB and FASB announced that they planned to create an international advisory group to facilitate the two standard setters’ development of “common solutions that promote sound reporting and enhance transparency” (FASB chair, Robert Herz, in FASB, 2008).

Overall, this episode shows that by early October, when public policymakers started to push standard setters to change FVA rules, many accounting constituents began to prioritize financial stability over transparency, an order that differed from standard setters’, investors’ and analysts’ (represented by associations such as the CFA Institute and the Council of Institutional Investors) ranking of priorities (see also Camfferman & Zeff, 2015, p. 414). In contrast to the FASB which issued application guidelines for the measurement of fair values in illiquid markets to solve the “accounting problem”, the IASB amended IAS 39 under the open threat of European politicians to fix the “public policy issue” without the IASB (by means of a carve-out). While some politicians never adopted the financial stability frame (e.g. UK Prime Minister Gordon Brown, Financial

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40 According to the Committee of European Securities Regulators (2009), 61 out of 100 examined European financial institutes used the reclassification option and avoided €28bn of write-downs in aggregate. The retrospective option effectively allowed banks to “freeze” asset values at higher values as of July 1 (unless an impairment was triggered).
41 IASB chair, David Tweedie, likewise emphasized the premise of the Boards’ joint search for common solutions to accounting problems: “We are pleased that the European Union has acted quickly to accept our amendments on reclassifications. The new advisory group will help the boards to develop rapidly a co-ordinated response to the economic crisis” (Tweedie in FASB, 2008).
Times [October 4, 2008], Financial Times [October 14, 2008]) or only adopted it over time (e.g. French finance minister Christine Lagarde, Financial Times [April 11, 2008] versus Les Echos [October 14, 2008]), European public policymakers could agree on pushing the IASB to amend its FVA rules on the basis of concerns about the comparability of financial reports. This interpretation about the different financial reporting conditions in the U.S. and the EU was much harder to refute by standard setters and their allies and allowed actors who continued to believe in the traditional view of accounting to support the request for change.

5.4 Frame contest on independence of standard setters (October 2008 to 2009)

In late 2008 and throughout 2009, accounting constituents, with the help of public policymakers, repeatedly set new deadlines for accounting standard setters to change FVA rules. A frame contest on the independence of accounting standard setters emerged. In particular, standard setters’ unwillingness to embrace the objective of financial stability at the potential expense of transparency raised the question on whether public policymakers should have more influence on the content of accounting standards in both Europe and the United States.

After U.S. Congress had authorized the SEC “to suspend mark-to-market accounting” (Section 132 of the Emergency Economic Stabilization Act of 2008, which was passed on October 3) and the FASB had issued SFAS 157-3 on October 10, on October 13, the ABA asked the SEC to use its legislative powers to issue accounting guidelines that actually allowed for an easier deviation from market-based inputs to determine fair values:

Last week [, on October 10,] the FASB had the opportunity to provide useful guidance with FSP FAS 157-3, but it apparently still refuses to recognize the realities of the current situation. The FSP is circular [and does not allow for deviations from distressed sales prices when determining fair values42]. … Our goal is to provide users of financial statements with relevant, reliable, and useful information. The FASB guidance does not permit that. Simply put, the FASB has failed to take the necessary actions. We realize that we are requesting extraordinary action by the SEC, but it is the SEC, not the FASB, that has the legal authority and responsibility for accounting standards. (ABA, 2008)

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42 Indeed, U.S. banks did not make excessive use of the higher discretion to determine fair values by using level 3 inputs (Laux & Leuz, 2010).
Even though interpretations of “the realities of the current situation” still differed considerably among U.S. accounting constituents, influential political leaders such as Barney Frank, Chairman of the House Committee on Financial Services, started to express the view that the existing FASB actions were insufficient to solve firms’ fair value measurement problems (see American Banker [October 22, 2008]).

In Europe, the European Commission established another deadline for the revision of IAS 39. This time, the Commission asked the IASB (among other things) to allow for reclassifications of assets currently classified under the fair value option by the end of 2008 (European Commission, 2008). When it became clear that financial accounting had entered the policy agenda of G20 leaders who had planned to meet on November 14-15, 2008, the FAF and IASC Foundation proactively sent letters to U.S. President George W. Bush, the host of the G20 meeting, asking for the letters’ dissemination among G20 participants. The FAF letter condemned “recent efforts in the United States and abroad that contemplate political solutions to perceived flaws in certain accounting standards” and asked for the G20’s support for independent standard setting to ensure the “reliability and transparency of financial information presently available to investors” (FAF, 2008). The IASC Foundation’s letter underscored the plea for maintaining the independence of accounting standard setters by showing sympathy for policymakers’ concern about financial stability, while reminding that

At the same time, the primary aim of accounting standard-setters (and security regulators) is to provide transparency and comparability of financial information for investors and participants in capital markets – an objective that should not be sacrificed. (IASC Foundation, 2008, p. 2)

The Foundation Trustees thereby objected to public policymakers’ (radical) view of accounting, according to which financial stability constituted a key objective for standard setters. The G20

43 For views opposing the ABA position, see e.g. Baruch College Professor Douglas Carmichael in Crain’s New York Business [October 27, 2008]: “Do you want accounting to reflect reality, or do you just want to make it up?” or Professor Steve Hanke from Johns Hopkins University and Professor Jack Tatom from Indiana State University rejecting “[c]alls for valuing assets at inflated fictional values” in Investor’s Business Daily [October 24, 2008] or Kurt Schacht, managing director of the CFA Institute in Accounting Today [November 3, 2008]: “Fair value measurement is really the only relevant information …. Any move to either suspend it or put a moratorium on fair value measurement would be a mistake in our view.”

44 See e.g. the ECOFIN meeting summary from July 2008: “The current financial turmoil illustrates the importance of a robust and legitimate independent international accounting standard-setting process, which is responsive to the public interest and consistent with the objective of ensuring financial stability” (ECOFIN, 2008a, p. 12).
meeting resulted in an agreement on an “Action Plan” that urged standard setters to improve guidance for fair value measurement problems arising due to illiquid markets by the end of March 2009 (G20, 2008).

The year 2008 closed with the publication of the SEC’s study on the effect of FVA on financial stability which it had to conduct due to the mandate by the Emergency Economic Stabilization Act (Section 133). In its report, the SEC acquitted existing accounting rules from responsibility for bank failures and rejected the suspension of FVA (SEC, 2008, p. 202). Yet, the SEC report identified the need for additional application guidelines for determining fair values in illiquid or inactive markets (SEC, 2008, p. 202). For fair value skeptics, the SEC’s conclusions were inadequate and insufficient. Instead, Congressional intervention seemed to be warranted to make sure that financial accounting considered its impacts on financial stability:

Congress needs to establish a much better system for setting accounting standards. If the FASB remains the standard-setter, it should be overseen by the Fed and the FDIC [the Federal Deposit Insurance Corporation], the two agencies whose primary function is to maintain stability in our economy and financial system. Accounting rules are much too important to be left to an anonymous board of accountants and an SEC that does not understand prudential regulation. (William Isaac, former chair of the FDIC in American Banker [December 31, 2008])

U.S. Congress picked up the issue in March 2009. Next to William Isaac, who shared his concerns about lacking accountability of the FASB, in the hearing on “Mark-to-market Accounting: Practices and Implications,” Congressmen pushed the witness Robert Herz, chair of the FASB, to expeditiously finish the FASB’s work on additional guidance on valuing assets traded in inactive markets (House Committee of Financial Services, 2009). On April 02, 2009, within the 3 weeks’ timeframe demanded by the chair of the House Committee during the hearing, the FASB voted on amendments of FVA rules which were issued on April 9, 2009 (FASB, 2009). Investor groups and analyst associations promptly criticized the FASB’s bending to political pressure, reminding that a financial crisis was not the time to “deprive the marketplace of clarity and transparency and truth” (Patrick Finnegan from the CFA Institute in The Philadelphia Inquirer

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45 “Accounting standards today are set by the FASB, a five-member board that is shrouded in mystery. The SEC has authority to overrule the FASB for public companies, but almost never does – at least not publicly. The result is a system of accounting that is not accountable” (William Isaac in House Committee of Financial Services, 2009, p. 207).

46 See e.g. Paul Kanjorsky in House Committee of Financial Services (2009, pp. 1–2): “If the regulators and standard setters do not act now to improve the standards, then the Congress will have no other option than to act itself.”
In Europe, the new U.S. amendments resulted in calls for similar changes, again out of fear of disadvantages for European financial institutions (ECOFIN, 2009c; see also Financial Times Deutschland [April 6, 2009], La Tribune [April 7, 2009], Financial Times [April 7, 2009]). In March 2009, ECOFIN member Christine Lagarde had already shared her view that Europe “need[ed] to partially go back to a system of accounting based on historic values,” even if that meant that governments had to override the IASB’s reservations (Les Echos [March 13, 2009]). At an informal ECOFIN meeting in early April 2009, the Finance Ministers discussed the findings of the “high-level group on financial supervision in the EU” which, among other things, concluded in its report (ECOFIN, 2009b):

The IASB must … open itself up more to the views of the regulatory, supervisory and business communities. This should be coupled with developing a far more responsive, open, accountable and balanced governance structure. If such a consensus does not emerge, it should be the role of the international community to set limits to the application of the mark-to-market principle. (The de Larosière Group, 2009, p. 21)47

Inspired by the findings of the report (ECOFIN, 2009a, p. 8), at its meeting in July 2009, the ECOFIN Council adopted the following conclusions on pro-cyclicality:

The Council AGREES that the absence of counter-cyclical buffers and the lack of flexibility of accounting rules in allowing for through-the-cycle provisioning have been important factors in the amplification of the financial crisis. The Council UNDERSCORES the urgency and importance of addressing these issues. … the Council URGES the IASB to amend IAS39 quickly and in time for the preparation of the 2009 year-end financial statements …. (ECOFIN, 2009a, p. 11)

The end-of-2009 deadline aligned with the previous resolution of the G20 summit on April 2, 2009, that urged the FASB and IASB to find on a common solution (G20, 2009). However, instead of revising the measurement part of their financial instruments standards within “months, not years,” as agreed in March 2009 (IASB, 2009b, p. 4), the Boards began working on separate projects from July 2009 onward (IASB, 2009a, IN11). In 2012, the FASB decided unanimously to

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47 In October 2008, the European Union had asked a group of experts – called “The de Larosière Group” – for advice on the future of European financial regulation and supervision. The choice of experts was criticized due to its members’ close links to the financial industry (Haar et al., 2009).
develop its own impairment model (FASB, 2012), which later resulted in a major difference between IFRS and U.S. GAAP (see e.g. Hashim et al., 2016, 2019; Pucci & Skærbæk, 2020). In the later part of 2009, the debate on the independence of the FASB decoupled from the revision of accounting standards for financial instruments. In late 2009, the U.S. House Financial Services Committee “stopped short of adopting a proposal” (The New York Times [December 8, 2009]) by Congressmen Ed Perlmutter and Frank Lucas that would have transferred oversight authority from the SEC to prudential regulators (H.R. 1349 of the 111th Congress). Yet, an “unusually potent opposition has formed” (Grim, 2010), to prevent a regulatory binding shift of the view on the role of accounting (from traditional towards a radical or even an activist view). In open letters to the House Committee chair Barney Frank, the American Institute of Certified Public Accountants (AICPA), the Center for Audit Quality, the Center for Capital Markets Competitiveness, the Council of Institutional Investors, and the Investment Company Institute supported the SEC and FASB and their understanding of the purpose of accounting by pleading for the maintenance of the current regulatory oversight structure:

Handcuffing regulators to GAAP or distorting GAAP to always fit the needs of regulators is inconsistent with the different purposes of financial reporting and prudential regulation ....

[A]ccounting standards should not be … purposefully designed to try to dampen business, market, and economic cycles. That’s not their role. (Herz in The New York Times [December 8, 2009])

I am deeply concerned about the [proposal] …. I fear the potential consequences for our capital markets if investors come to believe that accounting standards serve any purpose other than to report the unvarnished truth. (SEC chair Mary Schapiro in SEC, 2009)

[If adopted, the proposal] will impair the quality of information received by investors because factors other than the primary needs of investors will be taken into account when the proposed board oversees accounting standards. We are concerned that investors will not fare well under such a scenario. (AICPA, 2009)

[The proposal] runs the risk of impeding the FASB’s ability to promulgate and issue standards for financial reporting that faithfully represent the economic activity of business transactions and provide information that meets the needs of investors and companies for all sectors of the economy. (Center for Audit Quality et al., 2009)

As of today, both Boards have preserved the traditional view of accounting in their conceptual frameworks. The IASB addressed concerns by the establishment of the Monitoring Board in January 2009. Backed with the support of its constituents (see e.g. the reference to the conclusions of the Financial Crisis Advisory Group (FCAG) in IASB, 2010: BC 1.21 and FASB, 2010: BC 1.21), during the revision of their conceptual frameworks in 2010, the IASB and FASB rejected adopting the objective of “financial stability” by arguing that financial statements should present the economic reality of the reporting entity with as little bias as possible … [However,] such a presentation is not necessarily inconsistent with a financial stability objective. … [E]xpanding the objective of financial reporting to include maintaining financial stability could at times create conflicts between the objectives that the Board is not well-equipped to resolve. … The only way to avoid conflicts would be to eliminate or de-emphasise the existing objective of providing information to investors, lenders and other creditors. The Board concluded that eliminating that objective would be inconsistent with its basic mission, which is to serve the information needs of participants in capital markets. (FASB, 2010: BC 1.21-23; IASB, 2010: BC 1.21-23)

Overall, the episode documents the standard setters’ insistence on the traditional role of accounting. Accordingly, standard setters rejected calls for expanding the objectives of financial reporting to cater to the needs of prudential regulators. From standard setters’ perspective, accounting information was used for the wrong purpose by prudential regulators (namely for accountability purposes):

Other parties, such as regulators and members of the public other than investors, lenders and other creditors, also may find general purpose financial reports useful. However, those reports are not primarily directed to these other groups (FASB, 2010: OB10; IASB, 2010: OB10).

Instead, the Boards institutionalized information usefulness in their revised conceptual frameworks (Murphy et al., 2013; Pelger, 2016; Williams & Ravenscroft, 2015). Backed by the support of investors and analyst associations, standard setters were not only able to preserve their independence but also to rebut calls to add the objective of financial stability to its core set of objectives and to preserve the accounting convention of information usefulness.

6. Conclusions

This paper sheds light on the process of constructing accounting issues as public policy issues. Accounting standard setting is ultimately a political endeavor. As such, it is important to better understand why some accounting issues attract political attention to the point that public policymakers use their authority to force standard setters to change accounting rules, while other
issues do not. We do so by analyzing the fair value debate during the financial crisis 2007-09 and by conceptualizing the debate as a frame contest following Goffman (1974).

The split of this debate into four distinct frame contests reveals that not all of these contests entailed the interference of public policymakers and a change of accounting standards. At the outset of the crisis, in 2007, accounting constituents constructed an accounting problem by raising concerns about whether fair values were able to faithfully represent economic reality in light of new developments on financial markets towards a liquidity drain. The (almost) exclusive use of frames that corresponded with the standard setters’ conceptual framework suggests that frame sponsors considered the standard setters as their frame targets. However, when standard setters refused to resolve the accounting problem constructed along the lines of the traditional view of accounting (missing faithful representation), accounting constituents made use of the multitier regulatory structure of accounting standard setting and constructed a problem that resonated with public policymakers who have, de facto, veto power over the private standard-setting institution.49 In other words, the process of constructing a public policy issue entailed a shift of the debate’s focus from contesting FVA’s ability to meet traditional accounting objectives to contesting the accounting rule’s influence on real economic or social consequences (in our case: financial stability) – an issue that is relevant for public policymakers. Since the construction of public policy issues demands the framing of a situation as being problematic for society as a whole (Knoepfel et al., 2011; Hill, 2010; Gusfield, 1981), we observe politicians becoming active in the public debate at the time when more and more actors framed FVA as undermining financial stability.

Similar to Young (2014), we show how standard setters succeeded for a long time in separating the “political” from the “technical”, that is to maintain the focus of the accounting debate within the scope of their conceptual framework. Standard setters consistently interpreted the unravelling crisis situation from the perspective of their primary framework according to which FVA was effectively reflecting economic realities and therefore provided decision-useful information. By relying on the statutes set out in their conceptual frameworks, standard setters were able to ward off accounting constituents’ calls for rule changes – especially in case of

49 According to Wayne Abernathy, executive vice president for policy and regulatory affairs at the ABA in 2009, the “multitier regulatory structure lets banks that cannot make their case with one regulator try another.” Thereby, banks usually decide to go public because they “have been caught off guard or are just angry.” In the case of FVA, the decision to go public “came after trying a lot of quiet representation” (American Banker, 2009).
constituents’ call for an overhaul of standard setters’ oversight structure. While “tethering standard-setting to norms such as transparency and objectivity [usually] … helps to legitimize the products of accounting standard-setting activity” (Young, 2014, p. 718), the strategy proves ineffective when alternative standard setting norms, such as faithful representation and comparability, offer room for challenging accounting standards.

Interestingly, however, public policymakers pushed for changes that aligned with the traditional view of accounting and standard setters’ conceptual framework. Instead of insisting on the abolishment of FVA (the logical consequence in case of interpreting the situation from the perspective of a primary framework according to which accounting was constructing economic realities), politicians pushed for clarifications of fair value measurement guidelines in the U.S. and for a harmonization of IAS 39 and FAS 157 to prevent competitive disadvantages in Europe and to secure the comparability of the financial performance of U.S. and European financial institutes. Both rule changes were therefore motivated by a reasoning that aligned with the standard setters’ conceptual frameworks (achieving a faithful representation of economic reality and ensuring comparability of financial reports) and standard setters had difficulties to find an effective counter-frame that aligned with their primary framework. Public policymakers thus incapacitated standard setters’ defense mechanism (i.e., their conceptual frameworks).

In contrast, in the frame contest on the independence of standard setters, where the traditional view of accounting (that is embedded in the conceptual framework) was challenged by the radical view of accounting, standard setters were able to draw on the conceptual framework as a legitimacy-giving resource and experienced considerable support by accounting constituents. Our analysis thus indicates that the conceptual framework functioned as an effective defense mechanism against accounting constituents’ attempts to push for rule changes affecting standard setters’ independence that were motivated on the basis of an alternative view of the purpose of financial accounting (namely, that standard setters should consider broader economic effects of their rules).

Our analysis also documents the interdependence of the stability of financial accounting and the stability of shared beliefs about the role and purpose of accounting (Power, 2009). Ravenscroft & Williams (2009) illustrate how a belief system can be supplanted by another one “in a remarkably brief period of time” (p. 774). While Murphy et al. (2013), Pelger (2016) and Williams
& Ravenscroft (2015) show how the financial accounting’s accountability function became supplanted by the information usefulness objective in the 1970s and later revisions of the conceptual frameworks, we show how the information usefulness objective can even prevail its dominance over the accountability objective in and after a debate that essentially dealt with holding (bank) managers accountable for their actions based on accounting information. To cater to constituents’ doubts on fair values’ ability to faithfully represent economic reality, standard setters abstained from extending the use of FVA. In that regard, the frame contest on the accounting problem, again, affected accounting regulation – but not the ranking of standard setting priorities. However, in a later revision, which finished in March 2018, the accountability (stewardship) function of accounting acquired a more pronounced role within the IASB’s conceptual framework (Pelger, 2020).

In the absence of a “clearing of the frame” during the financial crisis, i.e., the moment in time when all actors agree on the appropriateness of one particular frame for interpreting the present situation (Goffman, 1974, p. 338),50 frame sponsors are able “to actively exploit differences in the expertise through the creation of myths [or fabrications] that parliamentarians do not necessarily identify as such” (Hoffmann & Zülch, 2014, p. 711). Indeed, our analysis shows that politicians use different frames over time and often rely on expert opinions. Based on these experts’ interpretation of the crisis situation, European politicians forced the IASB to amend IAS 39. While the IASB was forced to amend accounting standards on the ground of the conceptual argument of their standard’s comparability deficits, the standard setter was able to use its conceptual framework to shield its standards against calls for further changes that conflicted with its accounting objectives. The FASB was similarly able to ward off calls for accounting changes that went beyond the development of an improved application guidance to secure that fair values faithfully represented economic reality. The conceptual framework thereby serves standard setters as a primary framework which aids in consistently interpreting and framing situations in which accounting issues are questioned. It thereby enhances the standard setters’ credibility and thus framing power. In the absence of a similar materialized primary framework, accounting constituents lacked in that consistency and therefore framing power when challenging the standard

50 In the case of the debate on FVA, “clearing the frame” took considerable time and only happened – if at all – long time after 2009. For example, even in academia, in the absence of structured discussions of FVA and its (potential) effects, papers “[m]aking sense of the recent debate” enjoyed high popularity (see especially Laux & Leuz (2009)).
setters. While the crisis events helped the financial services industry to enhance the credibility of their frames that targeted at convincing public policymakers to intervene, the gradually appearing counter-evidence (e.g. the SEC report on the role of FVA issued in December 2008) undermined the industry group’s attempts to fundamentally change accounting standards. We therefore provide evidence for the importance of consistent conceptual frameworks that are widely accepted among accounting constituents.
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## APPENDIX

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<td>April 11, 2008</td>
<td>This crisis demands that we act, but not overreact</td>
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<td>Sarkozy urges EU members to play by the rules</td>
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<td>Investors meet jobless rise with show of resilience</td>
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<td>Brussels yet to sign key accounting rules paper</td>
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<td>Financial Times Deutschland</td>
<td>September 28, 2007</td>
<td>Krise schafft Bilanzierungsnotstand</td>
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<td>McCreevy will den Bankern an die Boni</td>
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<td>Bilanztricks helfen nicht</td>
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<td>EU-Finanzminister schlagen Alarm</td>
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<td>Frankfurter Allgemeine Zeitung</td>
<td>March 12, 2007</td>
<td>Der Preis ist zu hoch</td>
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<td>April 7, 2008</td>
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<td>Investment News</td>
<td>April 21, 2008</td>
<td>Fair value isn't the culprit, it's the scapegoat in credit turmoil</td>
<td>LexisNexis</td>
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<td>Investor's Business Daily</td>
<td>March 5, 2008</td>
<td>Banks Valuing Subprime Assets Have To Pass Auditors' Muster</td>
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<td>Mark-To-Model, Into The Twilight Zone</td>
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<td>New Rule Expands Banker Discretion In Valuing Assets</td>
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<td>La Tribune</td>
<td>September 26, 2007</td>
<td>La fausse transparence des normes comptables</td>
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<td>December 19, 2007</td>
<td>Les normes comptables sont-elles un facteur d'accélération de la crise financière?</td>
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<td>Les banques dans l'attente de nouvelles règles comptables</td>
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<td>Les Echos</td>
<td>June 18, 2007</td>
<td>Les normes IFRS font preuve d'une ambition démesurée et dangereuse</td>
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<td>Ne torpillons pas le système des stock-options</td>
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<td>Normes IFRS: doutes et obscurités</td>
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<td>January 10, 2008</td>
<td>La crise de confiance tient au fait qu'on ne sait pas où sont les pertes</td>
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<td>October 14, 2008</td>
<td>L'AMF convoque deux autorités pour parler &quot;fair value&quot;</td>
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<td>March 13, 2009</td>
<td>Les Etats-Unis donnent le sentiment qu'ils ne croient pas eux-mêmes à leur plan de relance</td>
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<td>National Underwriter</td>
<td>December 10, 2007</td>
<td>D&amp;O Insurers Warned To Be Wary As Fair-Value Accounting Rules Emerge</td>
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<td>Pittsburgh Post-Gazette</td>
<td>July 25, 2007</td>
<td>Business Workshop</td>
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<td>Südliche Zeitung</td>
<td>March 27, 2008</td>
<td>Kreditkrise löst Diskussion um Bilanzierungsregeln aus</td>
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<td>The Daily Telegraph</td>
<td>August 11, 2008</td>
<td>Sir David Tweedie, chairman IASB Accountant, loves being hate figure</td>
<td>Factiva</td>
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<td>The Guardian</td>
<td>October 3, 2008</td>
<td>Not good M&amp;S news - but still a good bet</td>
<td>Factiva</td>
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<td>The Independent</td>
<td>March 17, 2008</td>
<td>Radical measures needed to get us out of this terrifying game of Russian roulette</td>
<td>LexisNexis</td>
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<td>The New York Sun</td>
<td>March 27, 2008</td>
<td>Wilbur Ross Goes Bottom-Fishing</td>
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<td>The New York Times</td>
<td>December 8, 2009</td>
<td>Board to Propose More Flexible Accounting Rules for Banks</td>
<td>LexisNexis</td>
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<td>The Philadelphia Inquirer</td>
<td>April 3, 2009</td>
<td>Accounting board loosens rule on valuing investments</td>
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<td>The Sunday Times</td>
<td>November 11, 2007</td>
<td>Credit storm batters leading banks</td>
<td>Factiva</td>
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<td>The Wall Street Journal</td>
<td>April 18, 2007</td>
<td>Blackstone Tests Fairness of Using &quot;Fair Value&quot; Rule</td>
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<td>March 1, 2008</td>
<td>Wave of Write-Offs Rattles Market</td>
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<td>The Washington Post</td>
<td>September 23, 2008</td>
<td>Wall St. Points to Disclosure As Issue</td>
<td>LexisNexis</td>
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FIGURE 1
The Fair Value Debate and Financial Crisis Events in the United States

Notes: Figure 1 presents the distribution of the all 681 actor-statements on FVA identified in US newspaper articles along with the S&P 500 index, the U.S. unemployment rate, and economic, political, and regulatory key events from January 2007 to December 2009. Data for the S&P 500 index is from Thomson Reuters EIKON. The index movement is relative to the baseline value on January 1, 2007 (= 100). Monthly U.S. unemployment statistics are from the U.S. Bureau of Labor Statistics.
FIGURE 2
The Fair Value Debate and Financial Crisis Events in the European Union

Notes: Figure 2 presents the distribution of the all 969 actor-statements on FVA identified in European (i.e., French, German, and UK) newspaper articles along with the EURO STOXX 50 index, the unemployment rate in the European Union (27 countries), and economic, political, and regulatory key events from January 2007 to December 2009. Data for the EURO STOXX 50 index is from Thomson Reuters EIKON. The index movement is relative to the baseline value on January 1, 2007 (= 100). Monthly unemployment statistics for the European Union are from Eurostat.
<table>
<thead>
<tr>
<th></th>
<th>Traditional view</th>
<th>Radical view</th>
<th>Activist view</th>
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<tr>
<td><strong>Purpose of accounting</strong></td>
<td>Financial accounting shall provide information that is useful to decision makers and provide a faithful representation of the underlying economic phenomena.</td>
<td>Financial accounting shall generate desirable economic effects.</td>
<td>Financial accounting shall support governments’ realization of economic and societal goals.</td>
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<tr>
<td><strong>Objective(s) of accounting</strong></td>
<td>Decision usefulness, or accountability (stewardship)</td>
<td>E.g., financial stability</td>
<td>E.g., financial stability</td>
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<tr>
<td><strong>Role of accounting in society</strong></td>
<td>Financial accounting is neutral as it only represents economic reality.</td>
<td>Financial accounting is not neutral as it affects economic reality.</td>
<td>Financial accounting is not neutral as it affects economic reality.</td>
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### TABLE 2
Relation between FVA arguments and primary frameworks

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<thead>
<tr>
<th></th>
<th>Negative arguments</th>
<th>Positive arguments</th>
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<tbody>
<tr>
<td><strong>Traditional view</strong></td>
<td>Fair values are no faithful representation of economic reality (market values can be distorted; model-based values are not reliable).</td>
<td>FVA increases transparency and is most informative for decision-makers.</td>
</tr>
<tr>
<td><strong>Radical view</strong></td>
<td>FVA has pro-cyclical effects (e.g. impeding lending, forcing fire-sales of assets, fostering short-termism via e.g. increasing income volatility).</td>
<td>FVA is an early warning system as it impedes managers from hiding losses.</td>
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<tr>
<td>Diagnosis (blame attribution)</td>
<td>Transparency frame</td>
<td>Faithful representation frame</td>
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<tr>
<td>Managers’ mismanagement resulted in crisis</td>
<td>FVA is problematic in illiquid markets</td>
<td>FVA is (partially) responsible for the crisis</td>
</tr>
<tr>
<td>FVA is not responsible for crisis</td>
<td>➢ FVA mirrors reality (distorted market prices or biased management estimates)</td>
<td>➢ FVA constructs reality</td>
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</table>

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<thead>
<tr>
<th>Prognosis (treatment recommendation)</th>
<th>Transparency frame</th>
<th>Faithful representation frame</th>
<th>Financial stability frame</th>
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<tr>
<td>Maintain and improve the standards in the long-term</td>
<td>FVA needs to be fundamentally changed or abolished (immediately)</td>
<td></td>
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<tr>
<td>Extend the use of FVA</td>
<td>FVA needs to be fundamentally changed or abolished (immediately)</td>
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<tr>
<th>Motivation (reasoning for diagnosis and prognosis)</th>
<th>Transparency frame</th>
<th>Faithful representation frame</th>
<th>Financial stability frame</th>
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<tbody>
<tr>
<td>FVs reflect the true value of assets (and liabilities)</td>
<td>FVs based on market values are misleading, because market values are distorted and do not reflect the price that would be received to sell a financial instrument in an orderly transaction between knowledgeable, willing parties in an arm’s length transaction (i.e., the financial instruments’ fair value)</td>
<td>FVA increases pro-cyclicality (intensifies economic upswings as well as downswings)</td>
<td></td>
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<tr>
<td>FVs make changes in the value of financial instruments transparent to investors</td>
<td>FVs derived from models are not reliable / prone to managements’ manipulation</td>
<td>FVA undermines financial stability</td>
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<td>FVA acts as an early warning system</td>
<td>Related arguments: FVA encourages risk-taking and forces fire-sales</td>
<td></td>
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<tr>
<td>Moving away from FVA will reduce market confidence</td>
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<table>
<thead>
<tr>
<th>Alignment with primary framework</th>
<th>Transparency frame</th>
<th>Faithful representation frame</th>
<th>Financial stability frame</th>
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<tbody>
<tr>
<td>Traditional view of accounting (focus on decision usefulness)</td>
<td>Traditional view of accounting (focus on decision usefulness and accountability)</td>
<td>Radical or activist view of accounting (focus on financial stability)</td>
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</tbody>
</table>