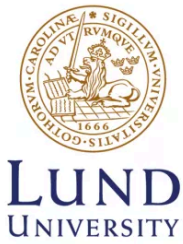

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Epistemic Fragility: Institutional Stability and the Ongoing Acceptance of Unverifiable Measurement in IFRS 13 Level 3

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Abstract

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Five key words: Epistemic Fragility, Level 3 fair value measurement, IFRS 13, verifiability, decision usefulness

Purpose: We examine how IFRS 13 Level 3 fair value measurement continues to be treated as epistemically adequate by preparers, auditors, regulators, and users, despite requiring measurements whose correctness cannot be independently confirmed against any observable market transaction. We introduce the concept of *Epistemic Fragility* to name this condition and explain both how it persists and how the standard's own provisions continuously regenerate it.

Methodology: Three analytical methods are integrated into a single research design. The deductive method establishes that the compliance mechanisms required by IFRS 13, covering sensitivity disclosures (IFRS 13, para. 93(h)), documentation requirements (IFRS 13, paras. 91–93), valuation models (IFRS 13, para. 89), and audit procedures (ISA 540), are each consistent with the decision usefulness objective (CF 1.2), while none can satisfy the knowledge requirements of predictive value (CF 2.8) and confirmatory value (CF 2.9). *Foucauldian genealogy* traces three historically specific and contestable institutional decisions through which procedural compliance came to substitute for independent verification. *Derridean deconstruction* exposes the logical contradictions within the standard's own wording through which *Epistemic Fragility* is actively reproduced.

Theoretical perspectives: The deductive analysis is grounded in the IASB Conceptual Framework (2018), treating decision usefulness (CF 1.2), predictive value (CF 2.8), and confirmatory value (CF 2.9) as the epistemic premises against which IFRS 13's Level 3 provisions are assessed. The genealogical analysis draws on Foucault's account of *power and knowledge*, treating accounting standard-setting decisions as contingent institutional choices that produce particular knowledge systems rather than neutral technical improvements. The deconstructive analysis draws on Derrida's concepts of the *supplement*, the *trace*, and *différance* to expose the logical contradictions embedded in the standard's own wording. The concept of

Epistemic Fragility provides the integrating theoretical framework across all three methods, naming the condition in which the standard's own provisions continuously regenerate the appearance of epistemic adequacy without delivering it.

Empirical foundation: The empirical material consists of close readings of IFRS 13 Fair Value Measurement (2011) together with its Basis for Conclusions (2009), the IASB Conceptual Framework (2018), and ISA 540 Auditing Accounting Estimates and Related Disclosures (Revised 2018). Each document is examined according to its own internal logic and against the IASB's own declared purposes. No primary fieldwork is conducted.

Conclusions: The structural impossibility of independent verification at Level 3 is not produced by poor implementation but is built into the standard's own architecture. The Conceptual Framework requires that useful information support users' expectations about future outcomes, which the Framework calls predictive value (CF 2.8), and provide feedback on earlier estimates against independently observable reference points, which the Framework calls confirmatory value (CF 2.9). The gap between these epistemic requirements and the measurement conditions at Level 3, where no observable market data exist by definition (IFRS 13, para. 86), cannot be bridged by any mechanism available within IFRS 13. Three historically contingent institutional decisions produced the conditions under which this structural gap became invisible. The first is the subordination of stewardship to decision usefulness. The second is the replacement of reliability with faithful representation, first proposed in IASB (2008) and formalised in 2010, and the concurrent repositioning of verifiability to an enhancing qualitative characteristic (CF 2.30). The third is the subsequent normalisation of Level 3 measurement practice across standard-setting, audit, and user behaviour. The market participant construct (IFRS 13, paras. 21 and 89) inscribes the absence of observable market inputs within the standard's own text rather than resolving it, and the uniform measurement goal (IFRS 13, para. 2) constitutes a logical contradiction that the hierarchy's own knowledge structure denies. These two contradictions form a self-reinforcing loop that regenerates *Epistemic Fragility* each time the standard is read and applied. The structural limitations of Level 3 fair value measurement cannot be fully resolved through stricter enforcement, more rigorous audit procedures, or enhanced disclosure requirements alone, because the limitation is located in the relationship between the standard's own provisions rather than in how those provisions are applied. Standard-setters considering revisions to IFRS 13 or the Conceptual Framework are directed toward specific provisions (IFRS

13, paras. 2, 21 and 89) and the positioning of verifiability (CF 2.30), as these are the sites where *Epistemic Fragility* is structurally generated and reproduced. The analysis makes four contributions to existing literature. First, it builds Power's (2010) account of verification by examining how the repositioning of verifiability as an enhancing qualitative characteristic (CF 2.30) helps sustain *Epistemic Fragility* of Level 3 fair value under IFRS 13. Second, it responds to the explanatory gap opened by Barker and Schulte's (2017) analysis of the market-participant perspective by examining how IFRS 13 continues to operate with institutional stability despite the logical tensions created by Level 3 measurement. Third, it distinguishes the instability identified in this thesis from the broader semiotic detachment discussed by Macintosh et al. (2000), by locating the problem within the internal logic of IFRS 13 rather than in a general breakdown of accounting representation. Fourth, it distinguishes the argument from MacKenzie's (2006) account of performativity by showing that, in the case of IFRS 13 Level 3, the absence of observable market grounding is already inscribed within the standard's own measurement structure, rather than arising primarily from feedback effects between valuation models and markets.

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1. Introduction

Financial reporting rests on a specific expectation about the figures it produces. Those figures are not offered as estimates or approximations. They are presented as representations of economic conditions whose accuracy is capable, at least in principle, of being confirmed by an observer who did not participate in producing them. Our thesis examines certain accounting measurements for which the expectation cannot be met. It asks how the failure to meet this expectation remains invisible to those who prepare, certify, and use the figures in question.

Consider a professional appraiser asked to value a painting by a well-known artist. The appraiser looks at the work, checks recent auction records for similar paintings, and writes up a valuation. Another appraiser working from the same records would reach a similar figure, and a future sale would eventually show whether the valuation was right. The appraisal is useful precisely because its conclusion can be checked against evidence that anyone can access. Now consider the same appraiser asked to value a painting by an artist whose work has never been sold or shown in public. There are no sales records, no auction history, and nothing else any party could look up. The appraiser follows the same steps with the same care, and the resulting report looks identical in structure, format, and weight. But the conclusion cannot be checked. No records exist. No similar sales can be found. There is no way to test whether the appraiser's estimate of what a buyer might pay matches what a buyer would actually pay, because no such sale has ever happened. This gap has nothing to do with how carefully each appraiser did the work. Both followed the same process with equal effort. The difference is simply whether the evidence needed to confirm the conclusion exists, not whether the process that produced it was done well. Yet both reports are treated by the people who order, approve, and rely on them as if they carry the same weight.

Two observations follow from the painting example above. A reporting system that routinely produces figures that cannot be confirmed against independent evidence continues to be accepted by all participants as though those figures were properly grounded. Moreover, the rules governing that reporting system do not merely permit this acceptance. The rules appear to generate this acceptance each time they are applied.

The aim of our thesis is to address one central research question. How does IFRS 13 Level 3 fair value measurement continue to be accepted as epistemically adequate by those who prepare, audit, and use financial statements, given that the observable market inputs required for independent verification are absent by definition? We pursue this question by examining how a reporting framework built on measurements that cannot be independently verified continues to function as though those measurements were epistemically adequate, and by identifying the mechanisms that may produce and sustain this condition.

To understand why this question arises, we need to understand the framework the question concerns. The International Financial Reporting Standards (IFRS) are developed by the International Accounting Standards Board (IASB), an independent body set up in 2001. IFRS 13 Fair Value Measurement, published in 2011, provides a single set of rules for measuring fair value. Fair value is defined as the price a company would receive if it sold an asset, or the price it would pay to transfer a liability, in an orderly deal between informed, willing parties (IFRS 13, para. 9). The standard organises measurements into three levels based on how observable the underlying market data are. Level 1 uses directly observable prices from active markets (IFRS 13, para. 76). Level 2 uses inputs that can be checked against observable market data (IFRS 13, para. 81). Level 3 is defined as the level at which no observable market data are available, requiring companies to construct their own inputs using the best information they can find (IFRS 13, para. 86). IFRS 13 asserts that the fair value measurement goal is unchanged regardless of whether observable market information exists (IFRS 13, para. 2).

The difficulty that assertion creates runs deeper than it might first appear. A company must adjust its own internally generated inputs where reasonably available information suggests that market participants would use different assumptions (IFRS 13, para. 89). But this adjustment can only be made if reasonably available information about what market participants would assume actually exists. The defining feature of Level 3 is precisely the absence of that information (IFRS 13, para. 86). The adjustment cannot be applied in the very circumstances it was designed for. The inability to independently verify Level 3 measurements is therefore not an accident of careless reporting. It is built into the measurement framework by the standard's own rules. We call this condition *Epistemic Fragility*. The term refers to the state in which the standard's own rules continuously regenerate the appearance that procedural completeness is

equivalent to epistemic grounding. *Epistemic Fragility* is not a condition the standard merely permits. It is a condition the standard actively produces through its own terms.

Our argument establishes the existence of *Epistemic Fragility* in two stages. In the first stage, we show that the procedures IFRS 13 requires are each consistent with the standard's own stated goal of providing useful information for economic decisions, as set out in the Conceptual Framework, the document published by the IASB that establishes the fundamental concepts, objectives, and qualitative characteristics that underpin all IFRS standards (CF 1.2). These procedures include sensitivity disclosures, documentation requirements, valuation models, and audit procedures. Even when every procedure is followed perfectly, the problem remains. The limitation is not about how the standard is applied. It is about what the standard's own rules are capable of delivering. In the second stage, we show that IFRS 13 procedures can reach a fundamental mismatch between what the Conceptual Framework requires of useful financial information and the conditions that exist at Level 3. The Conceptual Framework requires that useful information have predictive value and confirmatory value, both of which depend on the existence of an independently verifiable reference point (CF 2.8 and CF 2.9). At Level 3, no such reference point exists. Our thesis therefore shifts the question from whether a company has measured correctly to whether the accounting framework is capable of delivering what it promises.

Answering the central question requires more than accounting analysis alone. Understanding the structural problem at Level 3 requires identifying what the standard's own rules cannot resolve. Understanding how the problem persists requires tracing the historical decisions through which following procedures came to be accepted as a substitute for independent verification of results. And understanding how the standard actively keeps regenerating *Epistemic Fragility* requires reading the standard's own text closely enough to find the logical contradictions hidden within it. Our thesis therefore brings three analytical methods to bear. These are deductive methods to establish the structural condition, *Foucauldian genealogy* to account for how it persists historically, and *Derridean deconstruction* to expose the logical contradictions within the standard's own wording. We explain what each method involves, and its theoretical grounding, in the Theoretical Framework and Method chapters.

It is important to be clear about what our thesis does not argue. Our analysis works entirely from within the standard's own declared framework, as explained in the Method chapter. Our thesis is also not a contribution to the large body of empirical research examining whether Level 3 figures are useful to investors or how markets price the uncertainty they carry. That research takes for granted that Level 3 figures have some basis for communicating economic information and asks whether that information moves stock prices. We address a more basic question, namely whether the accounting framework that produces Level 3 figures is capable of delivering the properties it claims those figures have. That question must come first.

We also would like to be clear about the position our thesis takes. Some researchers adopt an agnostic stance toward fair value accounting, treating Level 3 measurement as one reasonable approach among several, each with its own trade-offs, and declining to evaluate whether Level 3 specifically falls short of what it promises. However, we argue that Level 3 fair value measurement has a specific, identifiable, and serious problem. The standard requires measurements whose correctness cannot be independently confirmed, and it actively reproduces the institutional conditions that allow this to go unnoticed. This is not a matter of preference between different measurement approaches. It is a matter of whether the standard delivers what it explicitly declares it will deliver. The concept of *Epistemic Fragility* is our term for this specific and demonstrable failure. Our thesis does not simply describe the gap between what the standard promises and what it can produce. It explains how that gap persists and what keeps it hidden.

Prior research has approached related problems from several directions but has not closed the explanatory gap our thesis addresses. Power (2010) examined how four mutually supporting institutional conditions weakened the transactions-based conception of accounting reliability in favour of one aligned with markets and valuation models. Penman (2007) questioned whether fair value figures actually deliver the decision-useful information they are supposed to provide. Barker and Schulte (2017) identified the logical inconsistency of requiring companies to take the perspective of market participants when no market participants can actually be identified. Durocher and Gendron (2011) show how sophisticated users may preserve the ideal of comparability within IFRS reporting despite recognising practical inconsistencies. This insight is relevant to our analysis of Level 3 acceptance, although their study does not specifically examine IFRS 13 Level 3 measurement. The four contributions our thesis makes relative to each of these

studies are set out in the Conclusion, where the reader has the full argument in hand to evaluate them.

2. Literature Review

This literature review examines four strands of prior research that together frame the explanatory gap our thesis addresses. The first concerns the financial reporting objectives framework and the epistemic requirements it entails. The second concerns the claimed advantages of fair value measurement, the structural critiques those claims have attracted, and the empirical literature on Level 3 outcomes. The third concerns the specific problem of structural unverifiability at Level 3, including the constructivist and performativity accounts that bear on it. The fourth concerns the social and institutional mechanisms through which reporting frameworks sustain epistemic legitimacy in the absence of independent verification. While each strand provides valuable insights, none fully explains how IFRS 13 operates under Level 3 conditions or how such measurements continue to be accepted in practice. The mechanisms that sustain this condition remain insufficiently examined.

2.1 Financial Reporting Goals and the Decision Usefulness Framework

The literature on financial reporting objectives is organised around a fundamental tension between stewardship and decision usefulness, a tension arising from their incompatible evidential requirements. Stewardship depends on verifiable, transaction-based information to establish accountability (Gjesdal, 1981), whereas decision usefulness prioritises forward-looking, value-relevant information for economic decision making (Whittington, 2008). Predictive value (CF 2.8) requires information capable of supporting expectations about future outcomes, while confirmatory value (CF 2.9) requires information capable of providing feedback on prior evaluations. Since stewardship and decision usefulness rely on different evidential priorities, they cannot always be simultaneously optimised. Gjesdal's (1981) analysis supports this distinction by showing that stewardship requires information capable of supporting accountability, while the decision-usefulness framework gives greater weight to information useful for economic decision making.

Subsequent developments reflect a broader convergence toward the decision-usefulness logic, supported by both institutional and theoretical shifts. From an institution perspective, Whittington (2008) shows how the IASB's conceptual orientation shifted as financial economics

gained influence, progressively subordinating stewardship to relevance. From a theoretical perspective, Beaver (1981, 1998) provides the capital-market rationale for this shift by positioning investor decision making as the organising principle of financial reporting. Together, these contributions depict a field in which institutional change and theoretical justification reinforce one another, establishing market-derived measurement as the dominant anchor of financial reporting and normalising the prioritisation of relevance over verifiability.

We argue, however, that a deeper presupposition in this literature remains unexamined. The decision-usefulness objective assumes that forward-looking, market-based representations can continue to function as useful information even when the evidential conditions required for independent assessment are absent. This assumption is not merely unspecified but structurally problematic: predictive and confirmatory value presuppose some form of epistemic grounding, yet the literature does not explain how such grounding could be maintained when measurement relies on unobservable inputs.

This presupposition becomes critical under Level 3 conditions, where unobservable inputs are used by definition (IFRS 13, para. 86). The absence of observable market evidence directly undermines the possibility of independent assessment, raising the question of whether the decision-usefulness framework can sustain its own epistemic requirements under these conditions. This unresolved issue provides the starting point for our analysis.

2.2 Fair Value Measurement, Structural Critiques, and the Scope of the Analysis

Debates on fair value measurement converge on a structural tension between its claim to relevance and the epistemic grounding that such relevance presupposes. Within the decision-usefulness framework, fair value is defended on the grounds that market-based exit prices provide timely and economically meaningful information. Barth (2007) provides an important defence of fair value measurement by emphasising the decision-useful potential of market-based measurement. In the terms of the Conceptual Framework used in this thesis, this defence can be understood as relying on the availability of observable market evidence that supports predictive value (CF 2.8) and confirmatory value (CF 2.9). This defence, however, becomes vulnerable under Level 3 conditions, where observable market evidence is absent. This defence, however, depends on the availability of observable market evidence—a condition that

fails at Level 3.

Once this evidential condition is removed, a single structural critique becomes visible across the literature. Penman (2007) raises concerns about fair value measurement when market prices are unavailable and valuation depends on entity-specific assumptions or models. In the terms used in this thesis, these concerns can be linked to doubts about whether such measurements can provide the grounding needed for predictive value (CF 2.8) or confirmatory value (CF 2.9). Laux and Leuz (2009) reinforce the concern by showing that fair value measurement involves a persistent trade-off between relevance and reliability, especially where market inputs are weak or unavailable. Their analysis supports the view that Level 3 measurement raises epistemic concerns, although they frame the issue as part of a broader fair value debate rather than as a complete collapse of measurement validity. These analyses converge on the concern that the conceptual defence of fair value becomes more vulnerable at Level 3, because the market-based grounding on which its relevance claim depends is weakened or absent.

Power (2010) operates at a different analytical level by explaining how fair value gained institutional support and how the meaning of reliability was transformed in standard-setting discourse. His analysis helps explain the conditions under which weaker forms of verification could become acceptable. His account shows that four mutually supporting institutional conditions weakened the transactions-based, realisation-focused conception of accounting reliability in favour of one aligned with markets and valuation models. The institutional consequence of this transformation, as our thesis reads it, was that independent confirmability ceased to function as a binding prerequisite for reporting quality, a consequence formalised by the repositioning of verifiability as an enhancing rather than fundamental qualitative characteristic (CF 2.30). Power therefore provides an institutional background for understanding how fair value measurement could remain authoritative despite concerns about reliability and verification.

A separate empirical literature examines Level 3 measurement from the perspective of capital-market outcomes, focusing on value relevance and information risk. Laux and Leuz (2009) are better treated as part of the broader fair value debate rather than as the main example

of this empirical literature. While informative, these empirical studies address a downstream question, how markets price estimation uncertainty, rather than the logically prior issue of whether Level 3 estimates possess an epistemic basis that allows for independent assessment in the first place.

What the contributions surveyed above share is a common stopping point. Together, they show that the defence of fair value becomes more vulnerable where market-based evidence is weak or unavailable, but they do not fully explain how the reporting framework remains institutionally stable under Level 3 conditions. The mechanisms through which Level 3 outputs continue to function as acceptable despite the structural breakdown of fair value's epistemic foundations remain unexamined. Tracing those mechanisms is the task our thesis undertakes.

2.3 Level 3 and the Problem of Unverifiability

The literature relevant to Level 3 fair value measurement points toward a structural contradiction: the epistemic grounding that fair value presupposes becomes difficult to sustain when observable market inputs are absent, yet the measurement framework continues to operate as though such grounding can be maintained. Different strands of scholarship illuminate this contradiction from distinct analytical angles.

One line of analysis identifies a difficulty in applying the IFRS market-participant perspective where the institutional conditions needed to make that perspective knowable are absent. Barker and Schulte (2017), in their study of fair value measurement for non-financial assets, show that for some assets the market-participant perspective required by IFRS may become wishful or incoherent. This insight is directly relevant to Level 3 fair value measurement, although their analysis is not limited to Level 3. Drawing on Searle's account of institutional facts (Searle, 1995), they demonstrate that the collective intentionality required for a market-participant perspective cannot form without actual transactions. Their fieldwork suggests that, in such cases, preparers' valuation practices may become expedient and unstable, and may diverge from the market-participant perspective required by IFRS. This diagnosis exposes a structural inconsistency within the standard itself but does not explain how the standard nevertheless continues to function despite that inconsistency.

A second line of work provides a broader constructivist explanation of how accounting numbers can gain social reality. Hines (1988) argues that financial accounting communication constructs rather than merely reflects economic reality. Although Hines does not address IFRS 13 or Level 3 measurement, this constructivist insight helps explain how accounting numbers may become socially accepted. Our thesis accepts this constructivist position. We do not assume the existence of a pre-given asset value that Level 3 fails to represent. Accepting Hines's constructivist ontology does not, however, dissolve the problem this thesis identifies. If both the standard's rules and its stated goals are socially constructed, the contradictions between them remain real features of that constructed framework. Hines (1988) explains how accounting representations participate in constructing social reality rather than merely reflecting a pre-existing reality. This constructivist insight helps explain how accounting numbers can become socially accepted, but it does not directly address IFRS 13 Level 3 measurement. Hines' framework addresses a broader constructivist problem rather than the specific internal relationship between IFRS 13 Level 3 and the Conceptual Framework. Therefore, while it helps explain the social acceptance of accounting representations, it does not directly address whether Level 3 estimates satisfy predictive value (CF 2.8) and confirmatory value (CF 2.9) on the standard's own terms. In this thesis's interpretation, predictive and confirmatory value require some basis on which users can assess or revise expectations. Under Level 3 conditions, that basis is weakened because the inputs are unobservable (IFRS 13, para. 86). Constructivism explains acceptance. It does not resolve the logical contradiction that exists within the framework itself.

A third strand provides a broader semiotic account that can be used to frame, but not directly explain, the instability examined in this thesis. Macintosh et al. (2000), drawing on Baudrillard, argue that accounting numbers can become self-referential simulations detached from economic reality. Their analysis develops a broader account of hyperreality in accounting signs generally rather than a specific analysis of IFRS 13. Building on this broader insight, our thesis narrows the focus to a more specific instability within IFRS 13 Level 3 fair value measurement itself, interpreting *epistemic fragility* as arising from the internal logic of IFRS 13, particularly the relationship between the IFRS 13's requirement to produce market-participant assumptions and the absence of observable market inputs.

A fourth strand approaches valuation instability though the concept of performativity.

MacKenzie (2006) argues that financial models do not merely measure markets but actively shape market behaviour, producing feedback loops in which models come to constitute rather than represent value. MacKenzie, Muniesa, and Siu (2007) extend this performativity perspective across multiple domains of economic practice. Their studies provide an important account of how valuation models interact with market activity. However, our thesis examines a different but related source of instability within Level 3 fair value measurement. The *epistemic fragility* identified here arises not primarily from feedback effects between models and markets, but from the internal structure of IFRS 13 itself, because it requires a market-participant perspective (IFRS 13, para. 21) while permitting unobservable inputs in circumstances where observable evidence about market-participant assumptions is unavailable or severely limited (IFRS 13, para. 89). The resulting reliance on internally generated assumptions is therefore embedded within the standard's own measurement structure rather than performative feedback effects between models and markets.

A fifth strand helps explain how *Epistemic Fragility* becomes institutionally stabilised. Espeland and Stevens (1998) show that *commensuration*, the process of transforming qualitatively different things into a single shared numerical scale, can generate legitimacy not through evidential grounding but through the procedural transformation of heterogeneous expectations into comparable numerical outputs. Their analysis helps explain how numerical output may acquire institutional authority even when the underlying objectives remain heterogeneous and difficult to compare directly. This broader insight can be extended to Level 3 fair value measurement, where valuation models, disclosure requirements, and audit processes may contribute to the appearance of comparability and objectivity even when the underlying inputs remain unobservable. Our thesis extends this line of analysis by examining more specific problems within IFRS 13 itself: the tension between IFRS requirements to produce market-participant assumptions and the absence of observable market inputs capable of providing *epistemic grounding*.

Taken together, these five strands provide theoretical resources for understanding how Level 3 measurement may be epistemically unstable, but they do so from different levels of analysis and with varying degrees of direct relevance to IFRS 13. What remains insufficiently explained is how IFRS 13 Level 3 outputs become stable and institutionally accepted despite the

absence of independently observable inputs. What remains unaccounted for is how the standard's own textual architecture and procedural mechanisms generate the appearance of epistemic adequacy despite the absence of independent verifiability. Our thesis addresses that gap.

2.4 Social and Institutional Mechanisms of Credibility

The literature on the social and institutional foundations of accounting converges on a central problem: how fair value measurement maintains acceptance despite unmet epistemic grounding. Rather than directly examining IFRS 13 Level 3 fair value measurement itself, this literature identifies a range of social and institutional mechanisms through which practices lacking independent verifiability continue to function as acceptable. These mechanisms include organisational conformity (DiMaggio and Powell, 1983), procedural compliance (Porter, 1995; Power, 1997), and users' tendency to preserve the ideal of comparability even when practical inconsistencies are recognised (Durocher and Gendron, 2011). These studies provide theoretical resources for understanding how accounting practices may continue to function as credible within institutional settings even when their evidential foundations are contested or incomplete. Our thesis applies these insights specifically to Level 3 fair value measurement under IFRS 13, where measurement depends on unobservable inputs.

One strand explains legitimacy as a product of institutional conformity. DiMaggio and Powell (1983) identify three mechanisms through which organisations adopt convergent practices regardless of whether those practices are epistemically justified. Coercive isomorphism arises from formal and informal pressures imposed by regulatory bodies and powerful actors on which organisations depend. Mimetic isomorphism occurs when organisations copy the practices of those they regard as successful, particularly when facing uncertainty about what to do. Normative isomorphism follows from the shared professional training and standards that create common expectations across a field. Together, these three mechanisms drive convergence on accounting standards independently of epistemic justification. Meyer and Rowan (1977) further argue that institutionalised myths and ceremonial adoption generate legitimacy through formal compliance rather than substantive performance.

A second strand explains how procedural compliance substitutes for epistemic grounding. Porter (1995) argues that in the absence of independent verification, adherence to quantified

procedures functions as a socially accepted proxy for objectivity. Power (1997) extends this insight by showing that modern audit reshapes organisations for *auditability* rather than verifiability, establishing procedural adequacy as the institutional criterion for acceptable knowledge. These insights are particularly relevant to Level 3 fair value measurement under IFRS 13, where the absence of observable inputs places increasing institutional emphasis on the adequacy of valuation procedures, assumptions, and controls rather than the independent confirmability of resulting valuations. This dynamic is reflected in ISA 540 (IAASB, 2018), which evaluates valuation processes and assumptions rather than the independent confirmability of Level 3 outputs. Procedural compliance thus stabilises measurement practices without resolving their epistemic limitations.

A third strand examines how legitimacy is reproduced at the level of users. Durocher and Gendron (2011), in their study of sophisticated users' responses to IFRS implementation in Europe, show how users often preserve the ideal of comparability even when confronted with inconsistencies and practical limitations in financial reporting. Drawing on a Foucauldian framework of *docility*, they argue that users frequently rationalize such inconsistencies rather than treating them as grounds for rejecting the broader ideal itself. This insight is relevant to our thesis because Level 3 fair value measurement similarly continues to operate within an institutional environment where comparability remains accepted despite persistent difficulties in independently confirming valuation assumptions. Our thesis extends this insight toward a broader configuration of *power/knowledge* in which institutional authority defines the criteria of acceptable knowledge. Within this configuration, accounting standards, audit practices, and disclosure requirements do not merely regulate behaviour but actively constitute the conditions under which financial information is judged to be meaningful and comparable.

The picture that emerges from this literature is one of legitimacy sustained without epistemic grounding. While the literature explains how legitimacy is socially and institutionally sustained, it does not identify the mechanism within the standard's own text that generates and reproduces the comparability ideal on which these processes depend. This leaves unresolved how epistemically inadequate outputs come to be stabilised as acceptable within the reporting system itself. One mechanism lies in the fact that the fair value measurement objective is uniform across all inputs (IFRS 13, para. 2). Another lies in the fact that this objective remains unchanged even

when only unobservable inputs are available (IFRS 13, para. 87). These provisions reproduce a comparability ideal that the standard's own measurement conditions make impossible to achieve, because Level 3 lacks the independent verifiability that comparability presupposes. The contradiction is therefore internal to the standard's own structural design. Our thesis addresses that unresolved condition by analysing the textual mechanism through which IFRS 13 reproduces the comparability ideal.

3. Theoretical Framework

This chapter sets out the theoretical grounding for the three analytical methods our thesis employs. Deductive method, *Foucauldian genealogy*, and *Derridean deconstruction* each rest on a distinct set of theoretical commitments, and these commitments determine what each method can and cannot reveal. Setting them out together makes clear why the integration of all three is necessary and what each brings to the analysis that the others cannot provide.

3.1 Deductive method: Analytical Commitments

3.1.1 Method Definition

The deductive method used in this thesis is an immanent critique of the IASB's conceptual architecture, conducted through close textual analysis of the Conceptual Framework and IFRS 13. An immanent critique evaluates a framework by its own declared standards rather than by importing external criteria: it asks whether the framework is internally consistent and whether it delivers what it explicitly promises to deliver. Applied here, the method examines whether the epistemic requirements the IASB declares in the Conceptual Framework can be satisfied under the measurement conditions the IASB itself establishes for Level 3. It does not evaluate Level 3 against an external theory of value, nor does it assume the existence of an objective asset value independent of accounting measurement.

The analytical structure is deductive in the sense that the Conceptual Framework provides the general epistemic premises, including decision usefulness (CF 1.2), predictive value (CF 2.8), and confirmatory value (CF 2.9), while IFRS 13 provides the specific provisions, including the definition of Level 3 inputs (IFRS 13, para. 86), the adjustment requirement (IFRS 13, para. 89), and the compliance and disclosure mechanisms (IFRS 13, paras. 91–93). The analysis derives its conclusions from the logical relationship between these two sets of statements. It evaluates IFRS 13 on its own terms, without importing external evaluative criteria or alternative measurement theories.

3.1.2 Ontological Clarification

A clarification of the theoretical commitment underlying this method is necessary because the critique developed in this thesis could otherwise be mistaken for a realist critique of fair value measurement. This thesis accepts the constructivist position that Hines (1988) establishes. Accounting constructs rather than merely reflects economic reality, and no pre-given asset value exists against which Level 3 measurement could be judged to fail. Our analysis makes no such realist assumption. The contradictions we identify arise entirely within the IASB's own declared framework and are assessed against the IASB's own stated goals. They are failures on the standard's own terms, not failures measured against an external reality. Accepting Hines's constructivist ontology does not, however, dissolve those contradictions. If both the standard's rules and its goals are socially constructed, the contradictions between them remain real features of that constructed architecture. A constructivist argument can explain how accounting representations gain social acceptance. It cannot remove inconsistencies that exist between the standard's own provisions. The deductive method therefore works within, rather than against, the constructivist position, while maintaining that constructivism provides no resolution to the logical problems the analysis identifies.

3.1.3 Methodological Legitimacy

The legitimacy of drawing theoretical insights from the close reading of standard-setting documents is well established within the interpretive accounting research tradition. Ryan, Scapens, and Theobald (2002, chapters 4 and 6) show that systematic analysis of institutional texts generates theoretical knowledge that cannot be produced by other means. Ahrens and Chapman (2006, pp. 819–830) demonstrate that interpretive research generates theoretical contributions by working through the internal logic of documentary materials rather than by testing predictions against observed data. Hopwood (1983) argues that the meaning of accounting practices cannot be recovered without examining the regulatory and conceptual frameworks that shape and give form to them, making close reading of those frameworks analytically necessary.

Within this tradition, immanent critique and close textual analysis constitute a rigorous and appropriate method for examining the epistemic claims embedded in IFRS 13 and for determining whether those claims can be met under Level 3 conditions.

3.2 Foucauldian Genealogy: Knowledge, Power, and Contingency

Foucauldian genealogy traces the historical conditions under which a particular practice came to appear natural and inevitable. The French philosopher Michel Foucault developed genealogy as a historical method for examining how particular practices and forms of knowledge came into being and how they persist. Genealogy does not ask whether the historical choices it traces were the right ones. It asks under what conditions those choices became possible and what their consequences were (Foucault, 1977, pp. 139–141). The aim is to show that what appears to be the natural or inevitable way of doing things was in fact the product of specific historical decisions that could have been made differently.

Foucault's approach to knowledge holds that a set of ideas and institutional conventions does not just permit certain statements and forbid others. It shapes and determines the conditions under which statements can be made at all, determining what questions can be asked, what evidence counts as relevant, and what conclusions can be recognised as reasonable. As Foucault (1980, pp. 109–133) elaborates, systems of knowledge are produced within and through power relations. Every knowledge claim simultaneously depends on and reinforces the power relations that grant authority to certain kinds of statements and deny it to others. A change in the vocabulary of accounting standard-setting is therefore not a neutral technical improvement in qualitative characteristics. It is a shift in the whole system that determines what counts as valid knowledge in the reporting framework.

Genealogy requires us to show that the historical choices it traces were genuinely contingent, meaning that real alternatives existed and were debated before being set aside. When we can point to specific moments of institutional contestation, to the arguments that were advanced on the losing side, and to the decisions through which one possible framework was selected over another, we have evidence that what happened was not inevitable. As Foucault (1977, pp. 139–141) argues, genealogy exposes the contingency that is concealed within practices presenting themselves as natural or necessary.

3.3 Derridean Deconstruction

3.3.1 Intellectual Origins and the Critique of Structuralism

Jacques Derrida (1930–2004) developed deconstruction, his distinctive approach to reading and analysing texts, through a critical engagement with structuralism. Structuralism was the dominant intellectual movement in France in the 1950s and 1960s and was heavily influenced by the linguistic theory of Ferdinand de Saussure (1983). To understand Derrida, it helps to first understand Saussure. Saussure argued that the meaning of a word or sign does not come from any direct connection to the thing it represents. Instead, meaning comes from the system of differences between signs. The word "hot" means what it does because it is different from "cold", "warm", and every other word in the language. There are no fixed, essential meanings, only differences. For Saussure (1983, p. 120), in language there are only differences without positive terms. Derrida accepted this relational account of meaning but found that structuralists had not fully followed its implications. In *Structure, Sign, and Play in the Discourse of the Human Sciences* (Derrida, 1978, pp. 278–293), he pointed out that most structural analysis quietly imports a contradiction into its own foundations. It assumes the existence of a centre, a fixed organising principle that governs the whole system while somehow remaining outside and exempt from the play of differences that governs everything else. This centre might be called truth, essence, the market, or the rational agent. Whatever name it takes, it functions as the stable ground of meaning while escaping the relational character that the structuralist method applies to everything else. Derrida calls this assumption the *metaphysics of presence*, the belief that a stable, self-evident reality lies beneath language and can, at least in principle, be fully captured by it (Derrida, 1976). *Deconstruction* is the sustained analytical practice of examining this assumption and tracing what it costs any text or institution that relies upon it.

3.3.2 Logocentrism, Différance, and Binary Oppositions

The fullest statement of Derrida's project is *Of Grammatology* (Derrida, 1976). Its central target is *logocentrism*, a term Derrida coined to name the pervasive tendency of Western philosophical thought to assume that beneath the flux of language and experience there lies a stable, unchanging reality that language can in principle accurately capture. Through close readings of Saussure, Rousseau, and Lévi-Strauss, Derrida shows that this claim to represent a stable, self-present reality is itself a philosophical construction, one that conceals the relational and always-deferred nature of meaning on which it depends (Derrida, 1976, pp. 27–73 and Culler, 1982, pp. 89–110). The claim to transparency is not itself transparent.

To capture how meaning actually operates, Derrida coined the word *différance* (Derrida, 1982, pp. 3–27). The spelling is deliberately unusual. It is constructed from the French verb *différer*, which carries two simultaneous meanings. The first meaning is to differ, that is to be distinct from something else. The second is to defer, meaning to delay or postpone. The distinction between the original French word and Derrida's new coinage is visible only in writing, not audible in speech. This invisibility in speech is itself a demonstration of the point, namely that meaning is not fully present or transparent in spoken language, as the logocentric tradition assumes (Derrida, 1982, pp. 3–5). As a concept, *différance* names the double movement through which meaning is always being produced but is never finally and completely achieved. Signs get their meaning from their differences from other signs, and meaning is always being deferred toward further signs and further contexts. It never arrives at a final, complete resting point. Accounting rules that invoke the market as a stable and objective ground for fair value perform a *logocentric* move. They assume a self-present origin whose authority their measurement practices claim to represent while concealing the extent to which those practices actively shape and define, rather than merely describe, the measurement reality they invoke.

Derrida extends this analysis to binary oppositions, that is, two-sided contrasts such as observable and unobservable, presence and absence, or reliable and unreliable. All such oppositions are, he argues in *Structure, Sign, and Play*, hierarchical rather than neutral. One term is given authority and presence while the other is treated as deficient or secondary (Derrida, 1978, pp. 278–293). Crucially, the secondary term is not simply the absent counterpart of the privileged one. It is the condition that reveals the instability of the privileged term's claim to be self-sufficient and complete. Deconstruction works by attending to the secondary term and showing that it reveals contradictions the dominant structure cannot resolve from within its own logic.

3.3.3 The Supplement and the Trace

Two further ideas from *Of Grammatology* (Derrida, 1976, pp. 141–164) are directly relevant to our analysis of IFRS 13. The first is the *supplement*. A *supplement* is something added to a structure in order to make it complete. The key insight is that the very act of adding a *supplement* reveals that the original structure was never complete in the first place. The *supplement* does not fill a gap that already existed separately from the structure. It reveals that the gap was a defining

and built-in feature of the structure from the outset. It is simultaneously an addition to the structure and an exposure of a fundamental absence that was always already there. The second idea is the *trace* (Derrida, 1976). The *trace* is the mark that absence leaves within what appears to be present. Any apparently complete and self-sufficient term carries within it the mark of what it excludes or defers. Together, the *supplement* and the *trace* provide the vocabulary for the first contradiction our thesis identifies in IFRS 13. The market participant (IFRS 13, paras. 21 and 89) was introduced to complete the fair value hierarchy in conditions where observable market data are absent. Our analysis shows that rather than filling that absence, it inscribes the absence within the standard's own wording.

4. Method

Our thesis draws on three analytical methods that together make visible what accounting analysis alone has not been able to articulate. Each method does what the others cannot, and bringing all three together is what allows us to answer the research question. The theoretical grounding for each method is set out in the Theoretical Framework chapter. This chapter describes how each method is applied to the empirical material and how the three integrate into a single analytical design.

4.1 Deductive method

We will follow the logical coherence of IFRS 13 in two stages. First, Stage One establishes that the compliance procedures required by IFRS 13, including sensitivity disclosures (IFRS 13, para. 93(h)), documentation requirements (IFRS 13, paras. 91–93), valuation models (IFRS 13, para. 89), and audit procedures (ISA 540), are each consistent with the decision-usefulness goal (CF 1.2). This rules out poor implementation as the explanation and shows that the limitation is built into the standard rather than arising from how it is applied. Second, Stage Two demonstrates that the limitation of these compliance and audit mechanisms lies in their inability to produce information that satisfies the Conceptual Framework's requirements for predictive value (CF 2.8) and confirmatory value (CF 2.9) under Level 3 conditions. Both predictive value and confirmatory value require that reported information can be checked against an independently verifiable reference point, and Level 3 provides no such reference point.

Our analysis assesses IFRS 13 solely against the IASB's own declared objectives rather than any external standard of measurement quality. The argument is grounded entirely in the internal relationship between the Conceptual Framework and IFRS 13, and each analytical claim is traceable to specific paragraphs of the primary documents examined.

4.2 Foucauldian Genealogy

Applied to IFRS 13, we use genealogy to trace three key moments through which procedural compliance came to substitute for independent verification. The first is the shift from stewardship to decision usefulness as the governing goal of the Conceptual Framework. The

second is the IASB's 2010 decision to replace reliability with faithful representation and to move verifiability from a core component to an enhancing quality (CF 2.30). The third is the acceptance of Level 3 measurement practice across three institutional settings, namely the standard-setting deliberations in the Basis for Conclusions (BC, IASB 2009, paras. 76–101) , the audit procedures of ISA 540, and the user behaviour documented by Durocher and Gendron (2011).

4.3 Derridean Deconstruction

Applied to IFRS 13, we use deconstruction to expose the two contradictions identified in the Theoretical Framework and connect them to the institutional durability established by the genealogy. The market participant (IFRS 13, paras 21 and 89) marks the absence of actual markets rather than filling it, functioning as a *supplement* that reveals the incompleteness of what it was added to complete. The uniform measurement goal asserted across all levels constitutes a logical contradiction (IFRS 13, para. 2). It claims equivalent knowledge quality across measurement conditions that the hierarchy defines as unequal, and it does so through the same rules that record within the standard's own text the absence of the market evidence on which the goal depends.

4.4 Integration of the Three Methods

The three methods are not alternatives. They address different dimensions of the same problem orderly. The first deductive method provides the evidential foundation from which all our analytical claims are drawn. It establishes where the standard's rules contradict its stated goals and rules out poor implementation as the cause. Then, *Foucauldian genealogy* accounts for the historical conditions under which those contradictions became invisible within the reporting system, explaining the institutional durability that textual analysis identifies but cannot by itself account for. Finally, *Derridean deconstruction* exposes the logical contradictions within the standard's own wording through which *Epistemic Fragility* is actively reproduced, showing that the condition is not merely a legacy of past institutional choices, but is continuously regenerated by the standard's own rules. Together, the three methods answer the research question in a way that none could achieve on its own.

5. Empirical Material

The material we analyse consists of three primary documents examined according to their own internal logic and against the IASB's own declared purposes. IFRS 13 Fair Value Measurement (IASB, 2011) is analysed together with its Basis for Conclusions (IASB, 2009), which records the deliberations and decisions of the standard-setting process (BC, paras 76–101) and provides direct evidence of the institutional choices that shaped the rules we examine. The IASB Conceptual Framework (2018) provides the framework of qualitative characteristics within which we assess those rules, including the decision usefulness goal (CF 1.2), the requirements of predictive value (CF 2.8) and confirmatory value (CF 2.9), and the faithful representation requirements (CF 2.12 to CF 2.19). ISA 540, published by the International Auditing and Assurance Standards Board in 2018 and in force for audits of financial statements for periods ending on or after 15 December 2019, provides the audit standard through which compliance with Level 3 valuation requirements is institutionally validated. We do not conduct primary fieldwork.

A single framework for measuring fair value is established, defining it as a market-based exit price (IFRS 13, 2011). Level 3 inputs are defined as unobservable inputs, setting the condition under which no market data are available (IFRS 13, para 86). The fair value measurement goal is asserted to remain the same at Level 3, creating a tension between the absence of observable inputs and the requirement to produce a market-based measure (IFRS 13, para. 87). Companies are required to develop their own inputs using the best information available, starting with their own data but adjusting that data if reasonably available information suggests that market participants would use different assumptions (IFRS 13, para. 89). This adjustment is the mechanism for bringing company-specific estimates into line with market-based ones. The measurement goal is asserted to be the same regardless of whether observable market information exists (IFRS 13, para. 2). Valuation from the perspective of hypothetical market participants is required through the market participant construct even where no active market exists (IFRS 13, para. 21). Companies are required to disclose how sensitive Level 3 measurements are to changes in unobservable inputs (IFRS 13, paras 91–93 and para. 93(h)).

The IASB Conceptual Framework (2018) provides the conceptual basis against which we assess IFRS 13 in our thesis. The goal of general purpose financial reporting is to provide information that is useful to existing and potential investors, lenders, and other creditors in making decisions about providing resources to the entity (CF 1.2). Predictive value and confirmatory value are defined here, indicating that useful information must support forward-looking assessments and provide feedback on earlier expectations (CF 2.8 and CF 2.9). Faithful representation requires completeness, neutrality, and freedom from error (CF 2.12). Verifiability is repositioned here as an enhancing rather than a fundamental qualitative characteristic (CF 2.30). The analytical significance of each of these provisions is developed in the Analysis chapters.

Audit requirements for accounting estimates and related disclosures are set out in ISA 540 (Revised 2018). The auditor's goal is defined as obtaining sufficient appropriate evidence on whether estimates are reasonable (ISA 540, para. 11). Auditors are required to evaluate the methods, assumptions, and data used by management rather than independently verifying outcomes (ISA 540, para. 22). Attention to estimation uncertainty is required (ISA 540, para. 16). The auditor must consider the risk of management bias (ISA 540, para. 32). Together, these provisions make procedural compliance the audit standard for Level 3 valuations, turning the assessment of a valuation process into the institutional substitute for independent confirmation of its result.

6. Deductive method

The deductive method applies an internal logical analysis to the relationship between the Conceptual Framework and IFRS 13. Deductive analysis proceeds by deriving conclusions logically from the internal relationship between general principles and specific provisions. In this thesis, the general principles are the epistemic requirements embedded in the IASB's Conceptual Framework, while the specific provisions are the Level 3 measurement rules of IFRS 13. Rather than evaluating Level 3 measurement against an external theory of accounting quality, the analysis derives its conclusions from the IASB's own stated objectives and measurement requirements. The method proceeds by identifying the epistemic grounding implied by the decision-usefulness objective (CF 1.2), predictive value (CF 2.8), and confirmatory value (CF 2.9), and then examining whether those conditions can be satisfied under the Level 3 measurement provisions of IFRS 13. In this sense, the analysis is deductive because the conclusions are derived from the internal relationship between the standard's own premises rather than from external evaluation criteria. A deductive approach is appropriate because the research question concerns the logical compatibility between the IASB's stated objectives and the internal structure of IFRS 13, rather than the empirical accuracy of particular valuations.

The deductive analysis proceeds in two stages. Stage one examines whether the standard's compliance procedures operate consistently with the decision usefulness objective (CF 1.2). Stage Two evaluates whether those same procedures can deliver the epistemic grounding required by predictive and confirmatory value. The relationship between the two stages is central. Stage one rules out the possibility that the problem arises from deficient implementation. Stage Two then locates the limitation where it actually lies: in the relationship between the standard's own provisions.

6.1 Stage One: The Compliance Mechanisms Are Consistent with CF 1.2

6.1.1 Sensitivity Disclosures under IFRS 13 Paragraph 93(h)

Companies are required to disclose how sensitive their Level 3 measurements are to changes in unobservable inputs, including the effect of reasonably possible alternative assumptions that could produce significantly higher or lower values (IFRS 13, para. 93(h)). This requirement

makes visible how changes in key assumptions affect the reported amount. Assessed against CF 1.2, the mechanism is consistent with the decision-usefulness objective. It provides users with information about the range of possible values relevant to their economic decisions, enabling them to assess how heavily the measurement depends on unobservable inputs.

The limitation follows directly from paragraph 86. Because Level 3 inputs are defined as unobservable, the sensitivity disclosure shows how outcomes vary when assumptions change but provides no basis for judging which assumption market participants would actually use. It communicates variability without enabling independent assessment of whether the central estimate is grounded in market-participant assumptions. The mechanism is procedurally complete yet epistemically limited.

6.1.2 Documentation Requirements under IFRS 13 Paragraphs 91 to 93

Companies must disclose information that enables users to assess the valuation techniques and inputs used (IFRS 13, para. 91). They must consider the level of detail, emphasis, and grouping necessary to achieve that disclosure goal (IFRS 13, paragraph 92), and must disclose at least the valuation techniques applied and quantitative information about significant unobservable inputs (IFRS 13, paragraph 93). Assessed against CF 1.2, these requirements are consistent with decision usefulness. They make the construction of Level 3 estimates transparent and provide information relevant to economic decision making.

The limitation mirrors that of sensitivity disclosures. Documentation can demonstrate that the estimation process was conducted and recorded, but it cannot establish whether the disclosed inputs reflect what market participants would use, because no observable market data exist from which such a comparison could be made.

6.1.3 Valuation Model under IFRS 13 Paragraph 89

Companies are required to develop their own inputs using the best information available, and the use of valuation models, including discounted cash-flow techniques, is explicitly permitted (IFRS 13, paragraph 89). Assessed against CF 1.2, this mechanism is consistent with decision usefulness. In the absence of observable prices, valuation models provide structured information about expected future cash flows that remains relevant to economic decisions.

The limitation follows directly from IFRS 13's treatment of Level 3 inputs in paragraph 86, which permits the use of unobservable inputs when relevant observable market data are unavailable. Because Level 3 inputs cannot be independently assessed against observable reference points, the valuation model structures the estimation process without providing an independently assessable reference point for the resulting output. The valuation model can therefore discipline and standardise the estimation process but it cannot independently confirm whether the resulting estimate reflects market-participant assumptions.

6.1.4 Audit Procedure under ISA 540

Auditors must obtain sufficient appropriate evidence regarding the selection and application of methods, significant assumptions, and data, and how management arrived at the point estimate (ISA 540, para. 22). They must assess whether the method is appropriate, whether calculations are mathematically accurate, and whether management bias has been considered (ISA 540, para. 23). They must also assess whether significant assumptions are appropriate, mutually consistent, and free from bias (ISA 540, para. 24). Assessed against CF 1.2, these procedures are consistent with decision usefulness. They impose discipline on the estimation process and scrutinise the key drivers of valuation outcomes.

The limitation is structural. These procedures evaluate the internal coherence of methods, assumptions, and data. They cannot establish an externally verifiable reference point for the reported amount because Level 3 conditions preclude the existence of such a reference point.

6.1.5 Conclusion of Stage One

Each of the four compliance mechanisms, sensitivity disclosures (IFRS 13, para. 93(h)), documentation requirements (IFRS 13, paras. 91–93), valuation models (IFRS 13, para. 89), and audit procedures (ISA 540), operates consistently with the decision-usefulness objective (CF 1.2). Each structures, documents, or scrutinises the estimation process in a way that the framework endorses. However, what remains missing is an independently assessable reference point capable of establishing whether the reported estimate actually reflects market participant assumptions. Therefore, the problem of epistemic grounding does not arise from how these mechanisms are applied. It arises from the measurement conditions to which they apply. Stage

Two identifies precisely how the epistemic requirements of predictive and confirmatory value become structurally unsatisfiable under Level 3 conditions.

6.2 Stage Two: The Structural Limits in CF 2.8 and CF 2.9

6.2.1 Predictive Value under CF 2.8

Financial information has predictive value if it can be used as an input to the processes users employ to predict future outcomes (CF 2.8). For a Level 3 estimate to satisfy this condition, users must be able to assess whether the inputs reflect what market participants would use. At Level 1 and Level 2, this assessment is possible because inputs are observable or can be checked against observable data. At Level 3, defined by paragraph 86 as the level at which no observable market data exist, such assessment is structurally impossible.

Sensitivity disclosures (IFRS 13, para. 93(h)) show how the estimate changes when inputs vary, but they do not allow users to judge whether the central estimate is grounded in market-participant assumptions. Predictive value is structurally weakened at Level 3 because the absence of observable inputs removes any possibility of independent assessment against observable reference points.

6.2.2 Confirmatory Value under CF 2.9

Financial information has confirmatory value if it provides feedback about earlier assessments (CF 2.9). Confirmatory value requires a future observable outcome against which an earlier estimate can be checked. Level 3 inputs are defined as unobservable (IFRS 13, para. 86), and because Level 3 conditions are defined by the structural and ongoing absence of a functioning market rather than a temporary gap in data, no observable transaction is available now or prospectively to serve as a confirmatory reference point. Therefore, the basic condition for confirmatory value is absent.

Sensitivity disclosures make variability visible but cannot provide feedback that confirms or corrects earlier estimates, because no external reference point exists. Confirmatory value is structurally weakened at Level 3 regardless of how detailed the disclosure is.

6.2.3 IFRS 13 Paragraph 89 and the Adjustment Mechanism

IFRS 13, paragraph 89 requires companies to adjust their own inputs where reasonably available information indicates that market participants would use different assumptions. This mechanism is the standard's primary device for keeping Level 3 estimates market-based rather than entity-specific. Assessed against CF 2.8 and CF 2.9, the mechanism is consistent with decision usefulness in design.

In operation, however, it cannot fully perform the epistemic role assigned to it. Para. 89 requires reasonably available information about market-participant assumptions, yet the only information capable of grounding such assumptions at Level 3 is observable market data, whose absence para. 86 makes definitional. The adjustment therefore presupposes precisely the information that the conditions for which it is designed simultaneously remove. The adjustment mechanism is conditioned on information that cannot exist under the conditions for which it is designed.

6.2.4 Conclusion of Stage Two

The mismatch between the predictive-value requirement, the confirmatory-value requirement, and the measurement conditions at Level 3 arises from the structure of IFRS 13 itself rather than from how the standard is applied. Level 3 inputs are defined as unobservable (IFRS 13, para. 86), removing the observable reference points required for independent assessment. Predictive value requires users to evaluate whether inputs reflect market-participant assumptions (CF 2.8), and confirmatory value requires a future observable outcome (CF 2.9). Neither condition can be met when no observable inputs exist. The requirement in paragraph 89 presupposes information that the definition in paragraph 86 simultaneously declares to be unavailable, and no mechanism within IFRS 13 can resolve this contradiction.

Bringing the two stages together clarifies the precise meaning of *Epistemic Fragility*. Stage One showed that the compliance mechanisms required by IFRS 13 and ISA 540 operate consistently with the decision-usefulness objective (CF 1.2) and are widely accepted as sufficient evidence that the reported fair value is appropriate. Stage Two demonstrated that the epistemic grounding required by predictive value (CF 2.8) and confirmatory value (CF 2.9) is structurally unattainable at Level 3. This substitution of procedural completeness for epistemic grounding is *Epistemic Fragility*. The standard's architecture produces an epistemic gap and simultaneously

generates the appearance that the gap has been closed. By permitting unobservable inputs while requiring those inputs to reflect market-participant assumptions, IFRS 13 creates a condition in which procedural completeness substitutes for epistemic grounding.

7. Foucauldian Genealogy

The deductive method established the structure of *Epistemic Fragility*. It showed that each compliance mechanism works consistently with CF 1.2 and that none can satisfy the knowledge requirements of CF 2.8 and CF 2.9. What it could not explain is how this condition is accepted rather than challenged. Preparers, auditors, regulators, and sophisticated users routinely treat procedural compliance as sufficient evidence of measurement correctness, despite the structural evidence that it cannot be (Durocher & Gendron, 2011; Power, 1997). *Genealogy* addresses this question by tracing the historically specific decisions through which following procedures came to be accepted as equivalent to achieving correct results. The answer lies in three key moments, each of which made the next possible.

Genealogy does not ask whether the historical choices it traces were correct. It asks under what conditions those choices became possible and what their consequences were for the knowledge architecture of the reporting framework. Critically, genealogy requires us to show that those choices were genuinely contingent, meaning that real alternatives existed and were debated before being set aside. When we can point to specific moments of institutional contestation, to the arguments that were advanced on the losing side, and to the decisions through which one possible framework was selected over another, we have evidence that what happened was not inevitable. What appears to be a natural progression in accounting standard-setting is revealed, under genealogical examination, as a series of decisions that real people made in specific circumstances and that could have gone differently. As Foucault (1977, pp. 139–141) argues, genealogy exposes the contingency that is concealed within practices presenting themselves as natural or necessary. In each of the three moments we trace below, that contingency can be demonstrated with reference to actual points of dispute within the standard-setting record.

The genealogy begins with stewardship, and the choice of that starting point requires explanation. Of all the conceptual moves one could trace in the history of IFRS standard-setting,

stewardship is the right place to begin because it represents the historically prior framework from which all subsequent shifts depart. Before decision usefulness became the dominant objective of financial reporting, stewardship imposed a specific and demanding set of epistemic requirements: verifiable, transaction-based evidence capable of independently confirming accountability between principals and agents. Those requirements are precisely the ones that Level 3 measurement cannot satisfy. The displacement of stewardship is therefore not merely a background event in accounting history. It is the inaugural institutional decision that opened the conceptual space in which Level 3's epistemic limitations could later become invisible. To understand how *Epistemic Fragility* came to appear normal and sufficient today, the genealogy must begin where that concealment began.

7.1 First Moment. The Transition from Stewardship to Decision Usefulness

The first moment is the subordination of stewardship to decision usefulness as the governing goal of the IASB Conceptual Framework. The genealogical claim is not simply that this transition happened, but that it was a specific, contested, and reversible institutional choice, and that its consequences for Level 3 measurement were real and traceable.

Stewardship, as Gjesdal (1981) establishes, rests on agency theory and requires verifiable, transaction-based information to discharge accountability between principals and agents. Its primary quality requirements are reliability and independent verification. The IASC Framework of 1989 (IASC, 1989), which the IASB inherited when it was established in 2001, treated stewardship as a primary objective of financial reporting alongside decision usefulness, and it embedded verifiability within reliability as a component criterion that reporting information was required to meet. Under that inherited framework, Level 3 entity-derived estimates would have faced a direct challenge at the level of the primary qualitative characteristics. Those estimates cannot be confirmed against observable market transactions, and independent verification of the assumptions underlying them is structurally impossible. The stewardship-oriented 1989 Framework would therefore have created institutional pressure to address this gap directly, whether by restricting the scope of fair value measurement or by specifying what standard of independent grounding unobservable inputs must meet before they can be accepted as reliable.

The decision to remove stewardship as a separate primary objective was made during the joint IASB and FASB Conceptual Framework project that ran from 2004 onwards. This project was explicitly designed to produce a common and updated framework for both standard-setting bodies (IASB, 2006). The 2006 IASB Discussion Paper that launched the qualitative characteristics phase of this project (IASB, 2006) proposed collapsing stewardship into the broader decision usefulness objective on the grounds that information useful for decision-making would also serve accountability purposes. This proposal was contested. Comment letters from preparers, some national standard-setters, and accounting academics argued that stewardship and decision usefulness could not be collapsed without loss, precisely because stewardship demands a different and stricter kind of evidence, namely transaction-based and independently verifiable information, rather than forward-looking estimates (IASB, 2006; Whittington, 2008). The IASB board member Whittington, who later documented his concerns in Whittington (2008), was among those who argued that the shift subordinated accountability to an investor-oriented model of reporting whose premises were rooted in financial economics rather than in the broader needs of financial statement users. The IASB chose to proceed with the collapse. The genealogical point is not that this decision was wrong but that it was a genuine choice made in the face of articulated opposition, not a neutral technical refinement. The 1989 Framework and the concerns raised during the joint project show that a different path was available and was explicitly argued for (IASC, 1989; IASB, 2006). Our genealogical reading holds that the choice made from 2004 to 2010 had specific consequences. In our analysis, it removed the institutional basis on which Level 3 entity-derived estimates could be directly challenged as failing the primary quality standard for reliability, and it opened the institutional space in which verifiability could subsequently be repositioned without appearing to contradict the framework's core purpose. The first moment made the second possible.

7.2 Second Moment. The Replacement of Reliability with Faithful Representation in 2010

The second moment is the pivotal one. The replacement of reliability with faithful representation, first proposed in the 2008 Exposure Draft (IASB, 2008) and formalised in the 2010 revision of the Conceptual Framework, as the primary qualitative characteristic governing financial reporting (CF 2.12 to CF 2.19) is the institutional change that most directly produced

the conditions under which *Epistemic Fragility* can persist. Power (2010) traces the broader transformation of reliability that created the institutional conditions for this change. The contribution of our thesis is to identify the specific consequence of that change for Level 3 measurement, and to show that this consequence was not simply an oversight but was the product of a specific framing choice that the standard-setting record makes visible.

Before 2010, reliability as a qualitative characteristic included verifiability as a component criterion (IASC, 1989). Under that framework, a Level 3 estimate produced from a company's own internally generated inputs faced a direct challenge at the level of the primary qualitative characteristics, because those estimates cannot be independently verified against observable market data. This was not merely a theoretical tension. The IASB's 2008 Exposure Draft on the qualitative characteristics of financial reporting (IASB, 2008), which preceded the 2010 changes, attracted comment letters explicitly raising the concern that removing reliability and repositioning verifiability would make it harder to challenge measurement approaches that produced outputs no one could independently check. Respondents from audit firms, preparers, and standard-setters in several jurisdictions argued that verifiability served a function that faithful representation, as defined through completeness, neutrality, and freedom from error, could not replicate. Freedom from error (CF 2.18) refers to the accuracy of the process through which a figure is produced, not to whether the resulting figure can be checked against an external reference point. A valuation process can be free from error in the sense of CF 2.18 and still produce a figure that nobody can independently confirm, because the inputs it uses are unobservable by definition. Respondents who raised this concern were asking the IASB to keep verifiability as a primary requirement precisely because they recognised that process quality and output confirmability are different things (IASB, 2008). The IASB chose to proceed with the change.

Faithful representation (CF 2.12 to CF 2.19) rests on completeness, neutrality, and freedom from error. Verifiability was simultaneously moved from a component of the primary qualitative characteristics to an enhancing qualitative characteristic (CF 2.30). It became desirable when achievable but was no longer a binding requirement at the primary tier. The specific institutional consequence identified in our thesis is that this repositioning made it consistent with the framework to accept procedurally validated representations of unobservable

values as meeting the primary quality standard. A Level 3 estimate produced through a documented valuation process and reviewed under ISA 540 can satisfy faithful representation even where independent verification of the resulting figure is impossible, because faithful representation no longer requires verifiability as a core component criterion. The primary-tier obstacle to treating procedural compliance as institutionally equivalent to measurement correctness was not eliminated. It was moved from a position where it would generate a direct challenge to Level 3 measurement to a position where it operates as an aspiration rather than a binding standard. The 2008 comment letter process shows that this consequence was at least partially anticipated (IASB, 2008). The choice to proceed regardless is what the *genealogy* records.

7.3 Third Moment. The Stabilization of Level 3 Measurement Practice

The third moment traces how Level 3 measurement practice became accepted across three institutional settings, given the conditions established by the first two moments. Those settings are the standard-setting deliberations in paragraphs 76–101 of the BC to IFRS 13, the audit methodology of ISA 540, and the financial statement user behaviour documented by Durocher and Gendron (2011). Read genealogically, each setting reinforces the others, and together they consolidate procedural compliance as the institutionally accepted substitute for independent verification.

Paragraphs 76–101 of the Basis for Conclusions reveal how the IASB framed the Level 3 problem during the deliberations that produced IFRS 13 (IASB, 2009). The board was aware that Level 3 inputs were unobservable and that this created measurement challenges it needed to address (BC, paras. 76–101). The framing the standard setters chose treated the absence of observable inputs as a disclosure challenge rather than a fundamental measurement validity problem (BC, paras. 76–101). The response was to construct the market participant assumption as a procedural substitute for observable market data, requiring companies to adjust their own estimates toward what a hypothetical market participant would use, and to manage the remaining uncertainty through the sensitivity disclosure requirements of IFRS 13's paragraph 93(h) and the documentation requirements of IFRS 13's paragraphs 91 to 93. The Basis for Conclusions explicitly acknowledges that the requirement to use market participant assumptions in the absence of observable market data creates practical difficulties but concludes that the disclosure

requirements adequately address those difficulties (BC, para. 100). This is the precise framing choice the genealogy examines. The IASB could have concluded that these practical difficulties were not a matter of disclosure adequacy but of measurement validity, and that Level 3 estimation could not coherently claim to meet the decision usefulness standard when its inputs could not be independently assessed. It did not draw that conclusion. The choice it made opened the path along which the standard then developed.

The parallel development of ASC 820 by the FASB (FASB, 2011) is also relevant to the genealogical account. The IASB and FASB were engaged in a joint project from 2004 onwards and both arrived at the same framing, embedding the market participant construct as the mechanism for extending fair value measurement to non-observable conditions (IASB, 2006; FASB, 2011). This convergence might appear to confirm that the solution was the natural and technically correct one. The genealogical analysis does not support that conclusion. Both bodies drew from the same intellectual foundation, shaped by the same shift toward financial economics and decision usefulness that Beaver (1981, 1998) and Whittington (2008) document, and both therefore shared the same set of assumptions about what measurement should achieve and what constraints it should satisfy. Two institutions sharing the same conceptual vocabulary will tend to reach the same conclusions, and that convergence demonstrates the breadth of the dominant framework's reach rather than the inevitability of the answer it produced. The genealogy does not claim that the IASB acted alone or uniquely. It claims that a particular way of thinking about measurement, rooted in financial economics and oriented toward decision usefulness, had become so widely accepted within the standard-setting world by the mid-2000s that it presented itself to both bodies as the obvious starting point. An alternative framework remained possible. It simply required premises that nobody was working from at the time.

ISA 540 is the audit instrument through which this acceptance was institutionalised. In its original form, ISA 540 required auditors to assess accounting estimates for reasonableness when it was first issued in 2003 (IAASB, 2003). The revised ISA 540, issued in 2018 and effective for audits of financial statements for periods ending on or after 15 December 2019 (IAASB, 2018), introduced a more structured risk-based approach that explicitly addresses estimation uncertainty, management bias, and the complexity of fair value estimates. These revisions strengthened the procedural rigour of the audit methodology without changing its fundamental

scope. The revised standard still requires auditors to assess whether the valuation process was appropriate and whether the significant assumptions used were reasonable (IAASB, 2018, para. 22). It does not require auditors to confirm independently that the resulting figure reflects what market participants would actually pay or receive, because the conditions of Level 3 measurement make that confirmation structurally impossible (IAASB, 2018, para. 22). What the revision achieved was to make the audit of Level 3 estimates more thorough at the process level, while leaving the boundary between process assessment and output confirmation exactly where it was. Power (1997) argues that modern audit transforms organisations not for genuine verifiability but for *auditability*, meaning the ability to demonstrate that procedures have been followed. The 2018 revision of ISA 540 is a deepening of *auditability* at Level 3, not a move toward output confirmability. An auditor who fully satisfies every requirement of the revised ISA 540 has still not confirmed that the resulting figure reflects what market participants would actually pay or receive, because the structural conditions of Level 3 measurement mean that confirmation remains impossible. ISA 540 compliance can therefore be understood as sufficient audit evidence at the level of process assessment rather than independent output confirmation. Power's (1997) concept of *auditability* helps explain how such procedural validation can become institutionally accepted as adequate evidence.

Durocher and Gendron (2011) provide evidence at the level of user behaviour. Their study shows that sophisticated users, including analysts and fund managers, may preserve the ideal of comparability under IFRS even when practical inconsistencies are recognised. This insight is extended here to Level 3 fair value measurement, where comparability remains institutionally accepted despite difficulties in independently confirming valuation assumptions. They characterise this behaviour as *docility*, and the genealogical point is that this passive acceptance is produced by the institutional conditions surrounding users, not chosen by them as individuals. Users operate within a reporting framework that makes the comparability ideal appear natural and settled, because the conditions under which it could be directly challenged, namely a primary-tier verifiability requirement that Level 3 estimates cannot satisfy, were relocated from the primary quality characteristics to the enhancing ones in 2010. Even users who are privately sceptical of Level 3 figures continue to engage with them using the same comparability standards they apply to Level 1 and Level 2 figures. They do so not because they are unsophisticated but because the reporting framework provides no formally sanctioned basis

for treating Level 3 figures differently. The continued acceptance of the comparability ideal by sophisticated users reinforces the conditions of this arrangement, in which procedural compliance stands in for measurement verification, and keeps *Epistemic Fragility* institutionally stable, with each setting of acceptance sustaining the others.

7.4 Conclusion of the Genealogy

The genealogical analysis shows that *Epistemic Fragility* is not an accidental or temporary feature of Level 3 fair value measurement. We demonstrate that *Epistemic Fragility* is the product of three historically specific decisions that compound one another, and in each case the standard-setting record shows that the decision was made in the presence of articulated alternatives. The subordination of stewardship to decision usefulness during the 2004 to 2010 joint project removed the institutional basis for challenging Level 3 estimates on reliability grounds, and it was contested by commentators who argued that the two objectives could not be collapsed without loss (Whittington, 2008; IASB, 2006). The 2010 repositioning of verifiability from a primary to an enhancing qualitative characteristic removed the primary-tier obstacle to treating procedural compliance as equivalent to measurement correctness, and the 2008 comment letter process shows that respondents anticipated and objected to this consequence (IASB, 2008). The subsequent normalisation of Level 3 measurement practice across the standard-setting deliberations of IFRS 13, the audit methodology of ISA 540, and the user behaviour documented by Durocher and Gendron (2011) consolidated this substitution into a mutually reinforcing arrangement in which each setting makes the others appear natural. What the genealogy reveals, but cannot by itself show, is how the standard's own wording actively ensures that this arrangement persists beyond the historical moment that produced it. The *Derridean Deconstruction* chapter identifies the logical contradictions within the standard's own rules that guarantee *Epistemic Fragility* is not merely a leftover from past institutional choices but a condition the standard continuously regenerates through its own terms.

8. Derridean Deconstruction

The Theoretical Framework introduced the deconstructive concepts we deploy in this chapter, including the *supplement*, the *trace*, binary oppositions, and *différance*, and identified the two primary logical contradictions in IFRS 13 that deconstruction exposes. The genealogy then showed how the historical conditions under which those contradictions became invisible within the reporting framework were produced. This chapter closes the argument by demonstrating that the standard's own wording does not merely allow *Epistemic Fragility* to persist as a legacy of past institutional choices. It actively reproduces the conditions of *Epistemic Fragility* through logical contradictions embedded in its own rules, contradictions that the standard generates but cannot resolve from within its own framework.

The two contradictions we identify are not independent of one another. They are structurally connected in a way that creates a self-reinforcing loop, and understanding how they work together is as important as understanding each separately. The first contradiction, located in the market participant construct of paragraphs 21 and 89 of IFRS 13, inscribes the absence of actual markets within the standard's own wording. The second contradiction, located in IFRS 13's paragraph 2, which asserts a uniform measurement goal, can then be understood as an attempt to paper over the absence that the first contradiction has already made permanent. But this attempt fails, and its failure is what makes *Epistemic Fragility* not simply a gap in the standard but a gap that the standard continuously widens through its own provisions. We develop each contradiction in turn before showing how they interlock.

8.1 First Contradiction. The Market Participant Construct as Supplement

The market participant construct establishes the perspective from which the assumed transaction must be conducted, namely from the position of a knowledgeable, willing party acting in its economic best interest (IFRS 13, para. 21). Companies are required to develop their own inputs using the best information available, beginning with their own data but adjusting those data where reasonably available information indicates that market participants would use different assumptions (IFRS 13, para. 89). These two provisions form the mechanism by which the standard ensures Level 3 estimates reflect market participant assumptions rather than company-specific judgements.

The deconstructive reading applies the concept of the *supplement* as Derrida develops it in *Of Grammatology* (1976, pp. 141–164). A *supplement* is an element added to a structure in order to complete it, whose addition simultaneously reveals that the original structure was never complete. The supplementary element does not fill a pre-existing gap. It reveals that the gap was a fundamental and defining feature of the structure from the outset.

The fair value hierarchy positions Level 1, defined by directly observable and unadjusted prices in active markets, as the primary standard of measurement credibility. Levels 2 and 3 are positioned as progressively weaker approximations of that standard. The structure of the hierarchy presents Level 1 as self-sufficient, the point at which market evidence and measurement coincide directly without adjustment or estimation. The market participant construct was introduced to extend the hierarchy to conditions where Level 1 inputs are unavailable. It is the *supplement* added to make the hierarchy comprehensive enough to serve as a single measurement framework across all assets and liabilities subject to IFRS 13. Without this extension to conditions of non-observability, the hierarchy could not fulfil the purpose stated in paragraph 2 of IFRS 13, which declares a single framework for fair value measurement regardless of whether observable market information exists.

What the concept of the *supplement* reveals is that this extension exposes the incompleteness it was added to conceal. The Level 1 standard of credibility was never self-sufficient as the foundation of fair value measurement. A hierarchy applicable only where active market prices are observable could not function as the single measurement framework for all the assets and liabilities to which IFRS 13 applies. The hierarchy therefore required its Level 3 *supplement* from the moment it was designed. In acquiring that *supplement*, it recorded within its own rules the absence it was originally designed to overcome.

The further consequence follows through the *trace*. The *trace* is the mark that absence leaves within what appears to be present (Derrida, 1976). The market participant construct in paragraphs 21 and 89 does not simulate the presence of actual markets at Level 3. It records their absence. Adjustment of company-derived inputs is required where reasonably available information indicates that market participants would use different assumptions (IFRS 13, para. 89). This requirement operates in conditions that paragraph 86 defines as conditions in which no observable market information exists. The information on which the adjustment depends is

precisely the information whose absence places an input in Level 3. The absence of actual markets is therefore recorded within the very rules designed to address it. Level 3 measurement proceeds as though the market participant perspective can be applied, while the conditions its application requires are structurally absent by definition. What the market participant construct leaves behind, embedded in the wording of paragraphs 21 and 89, is the *trace* of the absent market. That *trace* does not disappear once the *supplement* has been added. It persists within the standard's own text. And it is that persisting *trace* that the second contradiction then attempts, and fails, to erase.

8.2 Second Contradiction. IFRS 13 Paragraph 2 and the Uniform Measurement Goal

Before developing the deconstructive analysis of paragraph 2 of IFRS 13, we need to address the most important objection a standard-setter or defender of IFRS 13 would raise at this point. That objection runs as follows. That provision does not claim that Level 1, Level 2, and Level 3 measurements are epistemically equivalent, meaning that they deliver the same quality of knowledge. It simply establishes a consistent and practicable measurement objective so that the framework operates as a unified whole. Without a single stated goal, the standard would fragment into three separate measurement approaches with three different objectives, making it impossible to apply and compare across entities. That provision is therefore a matter of practical design, not an epistemic claim. This objection deserves a direct answer, and our analysis provides one. The distinction between practical consistency and epistemic equivalence is precisely what paragraph 2 of IFRS 13 collapses, and that collapse is the contradiction deconstruction identifies. If paragraph 2 of IFRS 13 were truly only a practical design provision, its content would be different. It would say something like the following. The approach to estimating fair value is the same across all levels, even though the quality of the resulting measurement differs depending on the availability of observable inputs. That formulation would be honest about the epistemic inequality the hierarchy encodes while maintaining procedural consistency. That provision does not say that. It asserts that the fair value measurement objective is the same regardless of whether observable market information exists, meaning that the goal itself, not merely the approach, is unchanged. The goal is defined as an exit price from the perspective of a market participant. That is not a procedural instruction. It is a claim about what the measurement is supposed to represent and what standard it is supposed to meet. Asserting

that this goal is the same at Level 3 as at Level 1 is therefore an epistemic claim. It asserts that Level 3 estimates represent the same kind of thing as Level 1 prices, namely a price that market participants would agree to. That is precisely the claim that the absence of market participants at Level 3 makes it impossible to sustain. The practical consistency objection does not dissolve the contradiction. It restates it in a softer language.

With that objection answered, we can now read paragraph 2 through the analysis of binary oppositions in the Theoretical Framework and show that it is a logical contradiction the standard cannot resolve from within its own rules. We also need to understand why the standard makes this assertion at all before we can understand how it fails. The assertion is necessary because the *supplement* has already exposed a problem. If the fair value hierarchy acknowledges through its three-level structure that observable and unobservable conditions produce different qualities of measurement, and if the market participant construct in paragraphs 21 and 89 of IFRS 13 records within the standard's own text the absence of actual markets at Level 3, then the standard faces a direct threat to its coherence as a single unified framework. This is the provision that tries to neutralise that threat (IFRS 13, para. 2). It asserts that the measurement goal is uniform across all levels, implicitly claiming that the *trace* of absence inscribed by the *supplement* does not affect the quality or character of what the framework delivers. This is the claim that deconstruction shows the standard cannot sustain.

The fair value hierarchy is organised around the contrast between observable and unobservable inputs, with observability as the privileged term. Level 1 is defined by directly observable prices in active markets (IFRS 13, para. 76). Level 3 is defined by the complete absence of observable market inputs (IFRS 13, para. 86). The hierarchy does not merely group different measurement conditions. It encodes a knowledge ranking. Observable inputs produce more reliable fair value measurements than unobservable ones. Level 1 sets the standard of credibility against which Levels 2 and 3 are positioned as progressively less reliable. The fair value hierarchy is therefore built on an explicitly acknowledged inequality between its levels

A uniform measurement goal is simultaneously asserted across all three levels, namely an exit price from the perspective of a market participant, regardless of whether observable market information exists (IFRS 13, para. 2). This assertion cannot be reconciled with the knowledge structure the hierarchy establishes. The claim that the goal is the same does not change the

conditions under which it must be pursued. The goal requires an exit price from the perspective of a market participant, but the market participant perspective cannot be applied in practice at Level 3, because the defining condition of Level 3 is the absence of market participants from whom assumptions can be obtained. As the first contradiction establishes, the measurement goal therefore cannot fully perform the epistemic role assigned to it in the same way across measurement conditions that the hierarchy defines as unequal. The assertion of uniformity does not resolve the inequality the hierarchy encodes. It overlays it with a claim that the inequality does not matter for purposes of the measurement goal.

The Theoretical Framework establishes that in a *binary opposition* the secondary term does not simply represent a weaker version of the primary one (Derrida, 1978, pp. 278–293). It is the condition that exposes the instability of the primary term's claim to completeness. Level 3 performs precisely this function. Stage Two of the deductive method has already shown why. Independently verifiable reference points are required for predictive and confirmatory value to be achieved, and at Level 3 no such reference points exist (CF 2.8 and CF 2.9). If the requirements that make decision usefulness practical under the IASB's own framework cannot be met at Level 3, then the measurement goal cannot be the same across levels in any meaningful knowledge sense. The assertion of uniformity is a claim to a stable centre, a fixed measurement goal that governs all three levels equally, that the hierarchy's own knowledge structure denies (IFRS 13, para. 2).

Différance (Derrida, 1982, pp. 3–27) operates within paragraph 2's assertion in a specific and demonstrable way. The uniform measurement goal defers its own realisation to conditions, namely observable market evidence and identifiable market participants, that Level 3 excludes by definition (IFRS 13, para. 86). The goal is stated in the text and withheld from the measurement conditions the text simultaneously prescribes. But the way it is withheld matters. That provision does not merely fail to deliver the uniform goal at Level 3. In asserting that the goal is uniform, it must invoke the very elements, market participants and observable market evidence, whose absence the first contradiction has already inscribed permanently within the wording of paragraphs 21 and 89 of IFRS 13. Every time paragraph 2 of IFRS 13 asserts uniformity, it calls upon conditions that the market participant construct has already recorded as absent. The assertion of uniformity therefore does not stand apart from the first contradiction. It

depends on it and is undermined by it simultaneously.The more insistently paragraph 2 of IFRS 13 asserts that the goal is the same regardless of observability, the more clearly it reveals that the conditions determining whether the goal can be achieved differ in a way that assertion cannot dissolve.

8.3 The Two Contradictions Considered Together

We can now show how the two contradictions work as a connected system rather than as two separate problems. The first contradiction arises when the fair value hierarchy acquires its Level 3 *supplement*. That *supplement* inscribes within the standard's own wording, through paragraphs 21 and 89 of IFRS 13, the *trace* of the absent market. The hierarchy presents itself as complete and uniform, covering all measurement conditions, but the *supplement* it needed to achieve that completeness has left a permanent record of the incompleteness it was meant to conceal. This is the *trace* that the *supplement* leaves behind.

The second contradiction then arises directly from the first. The standard's attempt to manage the threat that the first contradiction poses to the coherence of the hierarchy as a single framework is the uniform measurement goal asserted in paragraph 2 of IFRS 13. If Level 3 does not really deliver the same goal as Level 1, the hierarchy is not a unified framework at all but a collection of different measurement approaches with different properties held together under a common label. That assertion forestalls this conclusion. But in doing so it must invoke the market participant perspective and the observable market evidence that the *supplement* in paragraphs 21 and 89 of IFRS 13 has already been recorded as absent. In doing so, it calls upon conditions that the standard's own wording has already shown cannot exist at Level 3.

The result is a self-reinforcing loop. The hierarchy needs the Level 3 *supplement* to be a complete framework, but acquiring the *supplement* records the absence of the conditions the framework depends on. That provision then asserts that those conditions do not affect the measurement goal, but in making that assertion it relies on the very conditions whose absence the *supplement* has inscribed. Each provision that tries to secure the coherence of the framework as a single unified system thereby re-exposes the incoherence it was designed to conceal. It is worth being precise about how this loop connects to the condition of *Epistemic Fragility* as it is experienced by preparers, auditors, and users in practice. The loop operates through the everyday

reading of the standard. A preparer reads paragraph 2 and understands that the fair value measurement goal is the same regardless of observability. They then read paragraphs 21 and 89 and understand that they must develop estimates from the perspective of market participants. They follow the documented procedures, apply the valuation model, and produce a figure. The standard tells them, through paragraph 2, that this figure meets the same goal as a Level 1 price. It tells them, through paragraphs 91 to 93 and paragraph 93(h), that the right response to unobservable inputs is disclosure and sensitivity analysis, not a different measurement approach. Every provision the preparer reads points in the same direction. Procedural compliance is what the standard asks for, and procedural compliance is what they provide. The auditor then reads ISA 540 and assesses whether the process was reasonable. The user reads the disclosures and treats the figure as comparable to other fair value measurements. Nobody in this chain is being careless or dishonest. Each party is following the standard as written. And the standard, through the self-reinforcing loop we have identified, is the mechanism that makes this chain of acceptance appear sufficient. This appearance of sufficiency, produced not by external institutional forces but by the internal logic of the standard's own provisions working as a connected system, is precisely *Epistemic Fragility*. The standard does not simply permit the routine acceptance of unverifiable measurement. Its own provisions, working as a connected system, actively produce and sustain the conditions under which such acceptance appears both natural and sufficient.

9. Conclusion

Our thesis began with a puzzle. How does a financial reporting standard that requires the disclosure of prices for which no observable market exists continue to be treated as though those prices were properly grounded? The research question asked what mechanisms sustain a reporting standard built on measurements that cannot be independently verified. The three-method analysis has now answered it. Three interlocking mechanisms produce and sustain *Epistemic Fragility*, and each corresponds to one analytical method. We would like to be clear that our answer is not an agnostic one. We do not conclude that Level 3 measurement is simply difficult or that its limitations are acceptable trade-offs. We conclude that the standard has a demonstrable and specific internal failure, that this failure is built into its own rules, and that the standard actively regenerates the conditions that prevent that failure from being seen for what it is.

The deductive method we use established the structural mechanism through a two-stage argument. Stage One showed that the compliance mechanisms required by IFRS 13, including sensitivity disclosures under paragraph 93(h), documentation requirements under paragraphs 91 to 93, valuation models under paragraph 89, and audit procedures under ISA 540, are each consistent with the decision usefulness goal at CF 1.2. This ruled out poor implementation as the source of the problem. Thus, the limitation is structural. Stage Two then showed that the limit those mechanisms cannot reach comes from the gap between CF 2.8 and CF 2.9 and the measurement conditions at Level 3. Predictive value (CF 2.8) requires that users can assess whether inputs reflect market participant assumptions. Confirmatory value (CF 2.9) requires a future observable outcome against which prior estimates can be checked. At Level 3, defined by paragraph 86 of IFRS 13 as the level at which no observable market inputs exist, neither requirement can be satisfied. The adjustment mechanism of IFRS 13's paragraph 89, designed to align company-specific estimates with market participant assumptions, cannot be applied in conditions that paragraph 86 of IFRS 13 defines as the absence of the information on which it depends. A compliance mechanism can be completed correctly and the underlying knowledge condition can remain unsatisfied at the same time. This is *Epistemic Fragility*.

The *Foucauldian genealogy* traced the historical conditions under which this built-in condition became institutionally stable. We propose that three historically specific decisions produced this outcome. The shift from stewardship to decision usefulness moved the framework's knowledge requirements and opened the institutional space for verifiability to be repositioned. The 2010 replacement of reliability with faithful representation, and the concurrent repositioning of verifiability from a primary quality characteristic to an enhancing one at CF 2.30, removed the primary-tier obstacle to treating procedural compliance as equivalent to measurement correctness. The subsequent acceptance of Level 3 measurement practice across the standard-setting deliberations of paragraphs 76–101 of the BC, the audit methodology of ISA 540, and the user behaviour documented by Durocher and Gendron (2011) consolidated this substitution into a mutually reinforcing arrangement. What appears to be the rational operation of a well-designed reporting system is, under genealogical examination, the compound product of institutional choices that could have been made differently.

We use the *Derridean deconstruction* to show that the standard's own wording does not merely tolerate *Epistemic Fragility* as a legacy of those choices. It actively reproduces it through logical contradictions its own rules generate but cannot resolve. The market participant constructs functions as a *supplement* that reveals the incompleteness of what was added to complete (IFRS 13, paras. 21 and 89). It records the absence of actual markets within the standard's own text rather than filling that absence. The assertion of a uniform measurement goal across levels that the hierarchy itself defines as unequal is a logical contradiction that the hierarchy's own structure denies, asserting a stable centre whose conditions of achievement the standard simultaneously removes (IFRS 13, para. 2).

9.1 The Four Contributions

Power (2010) argues that four mutually supporting institutional conditions weakened the transactions-based, realisation-focused conception of accounting reliability in favour of one aligned with markets and valuation models, explaining how fair value measurement acquired institutional legitimacy despite widespread opposition. His account traces the external conditions that produced this outcome. Our genealogy draws on Power's account in tracing the historical moments through which that weakened conception of reliability became institutionally stable within IFRS standard-setting, and through which procedural compliance came to substitute for

independent verification. What Power's account does not fully explain is how that substitution can continue to appear sufficient across different parties who read and apply the standard, even beyond the institutional pressures that originally produced it. *Epistemic Fragility*, as our thesis defines the condition, addresses that gap. The standard's own rules, working as a connected system, continuously regenerate the appearance of epistemic adequacy from within, without requiring any external institutional reinforcement. Power (2010) shows that the weakening of the transactions-based conception of reliability produced institutional conditions under which market-based and model-based measurements could acquire legitimacy. Our thesis shows how those conditions became permanent at the level of the standard's own text, showing how paragraphs 2, 21, 87, 89, and 93(h) of IFRS 13 together form a self-reinforcing loop that converts company-specific estimates into market participant assumptions, asserts knowledge equivalence across unequal conditions, and embeds the compliance machinery through which procedural completion is accepted as sufficient evidence of measurement correctness each time the standard is read and applied, regardless of the institutional context in which that reading occurs. The repositioning of verifiability (CF 2.30) had concrete and previously unrecognised consequences for Level 3 measurement that Power's account of the transformation of reliability does not reach.

Relative to Barker and Schulte (2017), our thesis provides the explanation their analysis identified as necessary but could not fully explain. Barker and Schulte show that the market-participant perspective can become difficult to operationalise where the institutional conditions needed to make that perspective knowable are absent. Our thesis extends this insight to IFRS 13 Level 3 by explaining how the standard continues to function stably despite this tension. Our thesis provides two complementary accounts. The genealogy shows that the historical conditions under which procedural compliance came to substitute for independent verification protect the standard's institutional functioning from the logical incoherence at its core. The *Derridean deconstruction* shows that IFRS 13's paragraph 2, which asserts a uniform measurement goal reproduces the comparability ideal that sustains the passive acceptance that Durocher and Gendron document, so that the incoherence Barker and Schulte identify does not disrupt how the standard actually functions in practice.

Relative to Macintosh et al. (2000), our thesis identifies a different source of instability. Macintosh et al. applied Baudrillard's theory of simulation to argue that the source of instability

lies in a general breakdown of the connection between accounting signs and economic reality. Our thesis takes a different perspective and locates the instability within the internal logic of IFRS 13 on its own terms. The failure of the market participant construct to fill the absence of actual markets and IFRS 13's logical contradiction in paragraph 2 are contradictions within the rules of the standard itself. No general crisis of accounting representation is needed to identify them.

Relative to MacKenzie (2006) and MacKenzie, Muniesa, and Siu (2007), our thesis addresses a different problem. MacKenzie showed that financial models actively shape market behaviour, and the performativity account treats the Level 3 problem as a dynamic failure produced by the interaction between a valuation model and the market it represents. Our thesis shows that the absence of the market is inscribed within the standard's own rules from the moment IFRS 13 came into force, independent of any dynamic between a model and market behaviour. The condition is structural rather than dynamic, and it cannot be addressed by improving valuation techniques.

Beyond these four contributions, the combination of deductive method, *Foucauldian genealogy*, and *Derridean deconstruction* has not previously been applied to the specific problem of Level 3 fair value measurement. Integrating all three methods was necessary, and not merely as a matter of design. The three methods do not simply add to one another. Each one identifies a limit in what the others would conclude if used alone, and that relationship only becomes visible once all three have been completed. The deductive method established that the structural condition was built into the standard's own rules, but it produced a result that would have been difficult to account for without the genealogy: that a structurally incoherent condition could persist across multiple institutional settings without generating visible resistance. The genealogy then showed why that persistence was not accidental, tracing the historically specific decisions through which procedural compliance came to substitute for independent verification. But the genealogy alone would have left open the question of whether *Epistemic Fragility* was simply a legacy that future standard-setting choices might eventually correct. The deconstruction closed that question by showing that the condition is not a leftover from past choices but is continuously regenerated by the standard's own wording. Each method reached a limit that only

the next could cross, and that sequence was not fully apparent at the outset. Only together do they produce a complete answer to the research question.

9.2 Limitations

Our analysis is confined to Level 3. Level 1 and Level 2 are excluded because fair value measurement at those levels draws on observable market inputs, making the structural contradictions characteristic of Level 3 less visible and the framework's application more coherent. This restriction is deliberate. *Epistemic Fragility* is most fully developed where structural unverifiability is most acute.

We do not conduct primary fieldwork. Our analysis rests on close reading of IFRS 13, the IASB Conceptual Framework (2018), and ISA 540 (2018). Our thesis provides a structural and historical account of *Epistemic Fragility* but does not supply direct evidence of how preparers, auditors, or users experience or respond to the condition it diagnoses in practice. The fieldwork evidence in Barker and Schulte (2017) and Durocher and Gendron (2011) is used as secondary support, but those studies were not designed to test the specific mechanisms our thesis identifies.

Our thesis does not engage with the empirical literature on value relevance and information risk. That literature examines whether Level 3 figures are informative to capital markets and how investors price estimation uncertainty. We address a more basic question, namely whether the institutional framework governing Level 3 measurement is capable of producing the outputs it declares. That question must be answered before the informational properties of those outputs can be meaningfully assessed, and answering it is the task our thesis undertakes.

9.3 Directions for Future Research

Restricting our analysis to Level 3 suggests that a comparative study examining whether related conditions arise at Level 2 would be a natural extension. At Level 2, inputs require judgement in their application and depend on the corroboration of observable market data rather than direct quotation from active markets. Whether conditions similar to *Epistemic Fragility*, though less severe, arise at Level 2 is a question our analysis raises but does not answer.

The absence of primary fieldwork leaves open the question of whether the mechanisms identified in our thesis operate in practice in the way the structural and historical analysis predicts. Future research using interviews or observation could examine whether preparers and auditors recognise the distinction between procedural adequacy and knowledge adequacy in their own work with Level 3 valuations. Barker and Schulte (2017) begin to approach this question by examining difficulties in applying the market-participant perspective in practice. The present account of *Epistemic Fragility* provides a more precise theoretical framework within which such empirical investigation could be conducted.

Future work could also build on the structural account developed here to examine whether the specific features of *Epistemic Fragility* generate measurable effects on how capital markets price Level 3 estimation uncertainty. The structural account provides testable predictions. If the absence of independently assessable reference points for predictive value (CF 2.8) and for confirmatory value (CF 2.9) is a systematic feature of Level 3 measurement, its effects on how markets price estimation risk should be most pronounced precisely where the structural conditions of *Epistemic Fragility* are most acute.

9.4 Closing

The four contributions our thesis makes converge on a single methodological lesson. Assessing whether a financial reporting standard delivers on its stated measurement goals benefits from an approach that combines deductive methods with historical and textual methods. To our knowledge, this combination has not previously been applied to Level 3 fair value measurement. Applied to IFRS 13, the combination reveals that *Epistemic Fragility* is not an incidental feature of the standard that could be fixed through better implementation or more rigorous audit. It is a built-in condition produced by the standard's own rules, sustained by historically specific institutional choices that made procedural compliance the accepted substitute for independent verification, and reproduced by logical contradictions embedded in the standard's own wording that the standard cannot resolve from within its own framework. Preparers, auditors, regulators, and users may each contribute to the acceptance and reinforcement of measurement practices whose correctness cannot be independently confirmed, because the standard's own rules make such acceptance appear both normal and sufficient. However, the routine acceptance of

unverifiable measurement is not only a technical limitation of the standard; it has become an institutionally stabilised condition.

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11. Appendix

The following AI-based tools were used in the completion of this thesis.

1. Tools

Claude (Anthropic) and ChatGPT (OpenAI)

2. Use

Claude and ChatGPT were used for two purposes. First, both tools were used to proofread and improve the academic English throughout the thesis, including grammar, word choice, and sentence structure. The ideas, arguments, and content remain entirely the author's own, and the AI tools were only consulted to refine the language after the text had been written by the author. Second, the tools were used to assist in identifying potentially relevant academic references and literature. All suggested references were independently verified and accessed by the author, and the final selection of sources was made solely by the author. No AI tools were used for data analysis, interpretation of results, or the drawing of conclusions.