Crisis of Fair Value Measurement? Some Defense of the Best of All Bad Measurement Bases

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Abstract: - Many people points towards fair value accounting for financial instruments as being one of the major aggressors of financial crisis. We argue that it is just another case of shooting the messenger, by proving where things really went wrong, and who could be considered responsible within the formed vicious cycle. The results show that fair value accounting is nothing but a “scapegoat”, while the ones who are now asking a restriction in the scope of fair value accounting should take more responsibility for their actions. An objective point of view implies making a clearer distinction between accounting and prudential concerns. Fair value cannot be considered guilty for the actual financial crisis, but only a messenger of it, case in which some reactions can be understood, because we all know the general reaction towards the manager. In other words, the concept of fair value has the role to bring us as close as possible to reality, fact that could be realized through a correct implementation and a greater transparency, if used properly. Concluding by Churchill words about democracy: *“it is the worst system with the exception of all others”*.

Key-Words: - Fair Value; Financial Crisis; Historical Costs; Accounting Measurement; Value Relevance; Prudential Concerns

1 Introduction

Fair value measurement has considerable effects on financial ratios, especially upon and slightly after the crisis [29]. The effect on volatility of financial markets has been tested too [2].

A powerful growth of the financial markets, its increasing deregulation and globalization, the growing organizational complexity of these institutions, their corporate and capital partnerships, which increase their overall exposure to risk as well as the intense development of financial services, all of which are becoming more accessible to a wider circle of investors [13].

The use of fair value is a long debated subject, during last year, big financial institutions recognizing, financial statements’ frame, loss of more than 150 billion $, mostly under the use of market values [9]. Meanwhile, SEC is investigating the possibility of use, from some entities under research, of different market value for the same securities. From this perspective, nobody can deny the fact that the use of fair values involves some problems, especially in extremely difficult periods from the market’s point of view. For all that, the defenders of fair value bring as an argument, its capacity to ensure a certain connection to reality, associated with another aspect of reality, namely own shortcomings of alternatives for the market value.

We refer here to the fact that, neither the reflection value of some elements only in their costs, under the historical cost principle, would not provide investors a better image concerning the problems that financial institutions are now confronting.

The effects of SFAS 157 Fair Value Measurements implementation are presented today, a series of financial institutions trained in loans guarantee systems declare that they have been affected in a significant way by the accounting standards implementation regarding the fair value. In the light of the recent problems caused by the sub-prime credits crisis, SEC intents to emit, sonly, advices that would permit the entities to consider a wider series of values when they evaluate the assets and debts through reference to the market. In the same time, FASB does not plan any revising of the existent rules, continuing to consider as necessary that the entities should evaluate the assets and debts and even then, when the result is a significant diminution. Michael R. Young[1], member of the Financial Accounting Standards Advisory Council (FASAC) of FASB, actively participating within the process of implementation of SFAS 157, declares on 7th of March 2008:

> For those inclined to blame accounting, the real culprit in the sub-prime mass is a fairly new standard …SFAS 157. (Quoted by [9])

This point of view can be best illustrated by AIG case, who has recently registered a decrease of 11 billion dollars, as a following of the valuation at a fair value of some credit default swaps, when the auditor found out the significant weaknesses within the interior control regarding their financial reporting. Morgan Stanley, having 3 grade assets valuated at a value that represents approximately 7,4% of the total entity at the end of the third trimester, states a decrease of 3,7 billion dollars in the first 2 months of the forth trimester of 2007, due to a declining sub-prime market. According to some financial analysts researching the American banks situation, their portfolios are significantly marked by 3rd grade level assets (Lehman 22 billion dollars, Bear Stearns 20 billion dollars and JP Morgan 60 billion dollars) [9]. Even these values can be in fact underestimated, considering that the banks are the ones who integrated the 3rd grade level assets in a more acceptable one, such as level 2. The entities interest of placing as few as possible assets in the 3rd level and as many possible on 2nd level is justified by the fact that any significant diminution of the 3rd level assets could substantially affect the accounting net assets of the entities. Nowadays, the registered decreases are due to owning some collateralized debt obligations the majority being based on subprime mortgage bonds.

Paper starts by formulating the hypothesis that fair value accounting is not to be blamed for the actual financial crisis, and hereafter tries to prove it by going to the roots of the current state of facts. The starting point in this analysis consists in gathering opinions on fair value within trade literature. Therefore, literature review section is used and turned into an empirical analysis, with the purpose of catching a glance on current opinions on fair value. There were analyzed all papers from journals listed on Thomson Reuters Master Journal List (period 2005 – 2009)[2,3]. As this crisis began in 2007, this paper analyzes the papers written two years before the starting point and two years after beginning of crisis. The result is a useful bringing of fair value into the spotlight, in different settings and with different results. Moreover, this analysis helps us dimension the manner in which fair value is regarded within trade literature, even without the pressures of the current situation.

Since the roots of the current worldwide financial crisis have American origins, we have considered useful a short overview of how fair value is measured, recognized and disclosed within the American referential. Moreover, SFAS 157 Fair Value Measurements [20] also formed the basis of the IASB's relevant discussion document [16]; therefore, a short introduction within its foresights is both opportune and necessary. After tracing fair value within trade literature and American regulations' foresights, we must move forward to the current situation that worries us all, and try to link the two together. This is done by first analyzing the shackles of the chain that led us where we are, focusing on some mechanisms on the credit market. Furthermore we show exactly where the mistakes occurred and how we have more than one responsible involved party, fair value proving to be just a comfortable 'messenger' to revolt against when some questions need to be answered. The information gathered through the above mentioned setting help us confirm our hypothesis within the conclusion part of the study, which also relates to other misfortune valuation cases that shocked the accounting world. We consider that only a complete approach might offer fair value a fair judging process considering the complexity of the situation.

2 Literature Review

Numerous researches deal with information potential of measurement and accounting. Information systems are to assure enough information and transfer it according to a company's need, in relation to a company organization structure. Knowledge is a fluid mix of framed experience, values, contextual information, expert insight and grounded intuition [48, 55].

After analyzing all papers comprised within the 2005-2009 issues of the 16 selected international journals we ended up selecting 39 papers that directly approached fair value, some journals having no paper on this research area for the considered period. The following table shows the number of papers on fair value within each journal, also revealing the precise period when they were published:

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[1] Lawyer, having the role of adviser of the American Institute of Certified Public Accountants, being named by the Accounting today magazine, " one of the most influential 100 people in accounting".

[2] see Appendix 1

[3] Also within WSEAS events were dealt with current financial crisis and the effects of fair value measurement. Several papers on this matter were published in WSEAS Transactions on Business and Economics (SCOPUS journal), e.g. [44].

Table 1. Fair value papers published by ISI Journals in 2005-2009

Period / Journal	2005-2006	2007	2008-2009	Total
JAR	2	2	3	7
ABACUS	0	0	5	5
ABR	1	4	0	5
AH	2	1	1	4
EAR	2	1	1	4
AAR	2	1	0	3
CAR	0	2	1	3
TAR	0	1	2	3
JAAP	1	0	1	2
RAS	2	0	0	2
JAE	0	1	0	1
Total	**12**	**13**	**14**	**39**

Source: our analysis

The results show that the Journal of Accounting Research takes the first place, having the highest number of published papers on fair value, and maintaining a constant preoccupation in this field through the three considered periods. Next in line are ABACUS and Accounting and Business Research. ABACUS actually published a special issue (44:2) in 2008 dedicated to reproducing papers from the September 2007 Siena Forum on Fair Value and the Conceptual Framework (CF). These papers cover the vexed question of fair value measurement, within the context of current regulatory initiatives, particularly the efforts of the IASB and the FASB on the development of a joint conceptual framework. We have presented three separate periods, 2 years before the financial crisis, 2007 as the year when the crisis became visible and the two years afterwards, with the purpose of finding whether preoccupations for fair value analysis within trade have been influenced by the crisis period. If we compare the total number of papers for the three considered periods, we can notice a constant preoccupation, still 2007 recording a high number of published papers in comparison with the other two periods comprising 2 years.

Of course this can also be explained by the activities developed by the regulatory setting bodies, FASB issuing SFAS 157 in late 2006, followed by SFAS 159 in early 2007, while IASB released its discussion paper (DP) on Fair Value Measurements also in late 2006, having the American standard as a source of inspiration, the exposure draft (ED) on fair value measurement guidance being on the 2009 agenda. Financial reporting measurements have a significant impact on financial statements, therefore raising lots of comments and reactions on behalf of researchers, and not to mention practitioners. [9] is even suspicious about the chosen moment for the issuance of SFAS 159, considering that it could have been a reaction regarding the future crisis that was about to manifest itself, introducing the optional criteria as a temporarily solution.

Even when considering a limited number of papers as we did in our study, researchers approaching fair value of financial instruments still seem to raise the highest interest from researchers. The field of financial instruments is favorable for both empirical and theoretical studies, capital markets providing sufficient data for empirical researches, while all theoretical underpinnings of fair value are best emphasized in this field. In time, the trend is for all users of financial information to have higher expectation from financial reporting. Meanwhile, reality confronts us with more and more complex situations, especially in the field of financial engineering, financial reporting having the difficult role of coping with them, or in other words while learning from them, trying to get ahead of them. This indeed is not an easy task, all developments at either empirical or theoretical level, contributing with their findings, researchers analyzing an issue thousands ways before making a statement. This was also the fact when analyzing the selected papers, which are summarized within Table 2.

As for other specific elements whose fair value was analyzed within the selected papers, including nonfinancial assets, goodwill, mergers and acquisitions and pensions, they also seem to come into the researchers' field of interest through both theoretical and empirical studies. An interesting paper is the one of [16] who approach the British real estate and investment fund industries as experimental settings in order to show that fair value accounting for their real estate sample is considerably less value relevant than for the investment companies.

Table 2. Summary of fair value papers published by ISI Journals in 2005-2009

Topics and Subtopics	**Papers**
Analysis of fair value accounting at a general level	
FASB referential	**6**
	[7, 8, 10, 40, 43, 49]
Alternative approach to FASB's view	**4**
	[12, 16, 24, 54]
Pluses and minuses	**5**
	[23, 25, 36, 37, 47]
Capital market research	**2**
	[17, 33]

Opinions generated by accounting practices analysis	**2**
	[14, 31]
Fair value for all financial instruments	**1**
	[46]
(Net) Fair Value Accounting for forward contracts	**1**
	[11]
Fair value for liabilities	**2**
	[4, 15]
Cash flow hedge creating a mixed attribute	**2**
	[21, 42]
Employee stock option	**3**
	[1, 26, 32]
Executory contracts	**1**
	[53]
Fair-value pension accounting	**1**
	[22]
Measurement of no financial assets in imperfectly competitive market	**2**
	[38, 39]
Valuation of intangible assets	**3**
	[5, 6, 30]
Valuation rules	**2**
	[28, 45]
Auditing fair value measurements	**1**
	[34]
Financial crisis	**1**
	[41]
Total	**39**

Source: our analysis

The above-mentioned trade literature comprises a series of analysis on different aspects of fair value, performed on different settings, emphasizing both positive and negative corresponding aspects.

We have tried to quantify what would be the dominant opinion on fair value expressed through the analyzed studies on fair value, by assessing the overall attitude of each particular research. Therefore, we have encoded each study as being pro or against fair value accounting, while for those studies who settled with observing pluses and minuses without expressing a personal positive or negative opinion we have considered them as being neutral. Findings are presented within the following table:

Table 3. Opinions on fair value accounting[4] in papers published by ISI Journals in 2005-2009

Type of paper	Financial instruments			General			Other elements			Total
	+	-	*0*	+	-	*0*	+	-	*0*	
Empirical	6	2	0	1	0	0	1	1	3	**14**
Theoretical	4	1	3	6	5	3	1	0	2	**25**
TOTAL	**10**	**3**	**3**	**7**	**5**	**3**	**2**	**1**	**5**	**39**

Source: our analysis

[4] pro (+), against (-), neutral (0)

As mentioned within the methodological approach, the objective of our paper is to argue against those who nowadays have the tendency of blaming fair value accounting for the current financial crisis. One way of doing this is by getting an overall opinion within the selected papers which we consider representative for the world of accounting. By doing so, we can see that in the field of financial instruments most of the authors sustain fair value accounting, especially through results obtained within empirical studies. We should also mention that, even those studies who argue against fair value within empirical studies, explain their position by some of the concept's shortcomings in cases when objective data coming from active markets are not available.

When considering studies that approach the general concept of fair value, the majority is again in favor. Still, theoretical researches have the highest rejection degree of fair value accounting within the general category of studies, dealing with the concept of fair value. As for these 'against studies', they mainly comprised new approaches and innovative ideas for concepts that in the authors' view could help overcome fair value's drawbacks, but which of course have their own. In the category of studies, approaching other specific elements' fair value, we also have a higher number of pros than cons, but most of the studies proved to be neutral. As mentioned before, neutral studies were considered to be those who only analyzed fair value, presenting both positive and negative aspects, without a clear position of the authors' getting through. Therefore, in order for us not to distort the result of our analysis we have distinctively presented them.

When considering studies dealing with different types of financial instruments, we cannot state that opinions have been significantly affected after the crisis became noticed, the 'pro studies' recording a constant number through the 2005-2009 period, while 'against studies' are fewer after year 2007. The general category of studies had a growing tendency for 'against studies', but this also is more explained thorough ABACUS' 2008 special issue that stimulated a series of debates at the conceptual level of fair value, coming up with o series of new approaches of the authors that suggested the replacement of fair value. Some example include [40] proposal of a comprehensive set of accounting measures and a set of corporate governance reforms intended to align corporate insiders' and auditors' behavior and decisions with the interests of investors, or [54] Alternative View assuming that markets are relatively imperfect and incomplete and that, in such a market setting, financial reports should also meet the monitoring requirements of current shareholders (stewardship) by reporting past transactions and events using entity-specific measurements that reflect the opportunities actually available to the reporting entity.

A special emphasize should be put on [41] who directly addresses the financial crisis, and even if he discusses the critical aspects of SFAS 157's fair value definition and measurement guidance and explains the practical difficulties that have arisen in applying this definition and guidance to subprime positions during the crisis, together with raising a potential issue regarding the application of SFAS 159's fair value option, makes it clear that fair value does not, and moreover could not, represent the root of the current, or any other potential financial crisis. Other papers that directly approach fair value accounting in connection to the current financial crisis, by defending the concept of fair value, have been found within trade literature, and used for the following sections of the paper. Still, they were not included in this literature review because of its selective design aiming at achieving an empirical study that might catch the overall opinion on fair value accounting, and therefore needed some methodological grounding that limited our sample.

3 Some Evidence Defending Fair Value Concept

The capacity to achieve a true valuation is in fact the key to success in the domain of financial services, because in order to buy or sell a financial instrument, it is imperative to know its value. In addition, after one buys a financial asset or contracts a financial debt, valuation represents the key to success in risk management implied by this element, but also in reporting the created value, to the stakeholders. The credit crisis begun in 2007 was the cause of the job loss of numerous financial directors, but also of the bankruptcy and selling of numerous financial institutions. In time, 2 great problems seemed to be the base of this crisis. One of these is represented by the methods used to determine the fair value for financial instruments that started from the mortgage credits and were furthermore structured through a more or less complex setting. The second problem is the lack of information flow necessary to be known by investors, lack that could stop even the best valuation technique from generating a significant level of accuracy [18].

Derivative financial instruments such as those in CDO's category causes often significant losses to investors, but it has to be kept in mind that, by their nature, often they exist only with the goal that the companies that make their structure to sell them in trenches formed at a price greater than the cost of the collateral who is referred to. The investors who ignore this reality of possible losses resulted after the structure is done are too naïve for the CDO's market [18]. In fact, the most naives of these have been guiding just after the ratings of the trenches within CDO's and after they made acquisitions, without trying to obtain a confirmation of the fact that the price that was asked, represented a "fair value". Through this, they have practically chosen to ignore the fact that rating agencies are paid by the entity that realizes the securities structuring and that this could be in favor of a superior rating compared to the real level of the implied risk. If the trenches within the CDO's wouldn't have gained a more favorable rating than the one it deserved, these structures would not have been able to produce money through grouping some titles accessible on the market that would have been resold afterwards at a higher price under the form of trenches. Those investors that have participated within the CDO market, having been based only on the ratings offered by the rating agencies should be sanctioned correspondingly by the management of the entities that are directly implied in making the investment or even by regulation organisms on the market [18].

Another error, with a higher and more sophisticated degree, made by the investors is that of taking into consideration the advices offered by the rating agencies that recommended as a valuation technique of these derivatives, the utilization of the so-called copula function, usually on a basis of an afferent simulation of a sure period.

> If we take into consideration a CDO structured for 5 years, the risk would have been simulated according to a single period of 5 years. The utilization of the copula function in evaluating the derivatives is so inadequate that Wall Street Journal dedicated to this issue an entire page within the august 2005 number, describing how the investors lost hundreds of million dollars through the utilization of this function in the case of decrease in shares of Ford and General Motors. The copula function, used as a valuation technique of the derivatives, assumes the existence of only a single macroeconomic risk that could generate the insolvency of the credits and that the probability that the sum will not be paid remains constant during the forming period.

Other sources within trade literature consider that, at the root of the current financial crisis is also placed the acceptance, in the last years, of a high level for an indicator specific to the mortgage credit domain in the mortgage credits market, namely the proportionate credit value in the value of mortgaged property (Loan-to-Value).

This indicator represents in fact a leverage similar to the one used in the case of the entities, determining the proportion of the loan (mortgage credit) in the total value of the asset (the property value), and, as in the case of the entities, an increase of this leverage determines an increase in the risk associated to the mortgage credit. In this way, the increasing number of the credit's beneficiaries that cannot face any longer the payments is directly associated to an accepted high level for this leverage.

Therefore, we can state that the current financial crisis is due to the relaxations of the underwriting process within the credit market, and a far too high-accepted leverage in the last years for mortgage credits offered on the market [52]. These factors have raised significantly the underwriting process risk, but it was not correctly valuated at the moment when the mortgage was issued. The mass process through which these credits have been transformed in shares that gave the investors the right to a part of the cash flow generated by these (assets securitization) didn't do anything except to exacerbate the problem, when the rating agencies, despite the raised risk, gave high scores to some similar derivatives having as a base mortgage credits. This has determined an excessive increase in the demand for such securities, supporting in this way the demand on the real estate market and determining the increase in prices over time.

Once uncovered the true risk associated with these credits, the price of the derivatives has decreased, decreasing implicitly the request on the market for such products, in such way that the mechanism could not be applied furthermore. This time the banks had to evaluate the new mortgages in conditions of high risk of underwriting and stricter standards of according the mortgages credits. As obtaining the new credits is more and more difficult, the acquisitions for any type of properties has decreased, and their value has fallen constantly, reducing in the same time the part held by the credit's beneficiaries in the value of properties (the value of the properties has fallen, but the mortgage remained, increasing the level of the leverage) and increasing once more the underwriting risk.

Still from the end of September and the beginning of October 2008, Wall Street Journal published a series of articles that described how the banking industry is revolted against the fair value accounting, bringing a series of critics, the majority because these would impose to the banks to diminish the asset value within the balance sheet, at lower values as the ones showed on the market. It seems that the financial institutions militate for an elimination of the fair value, seen as a partial solution for the banking industry nuisances. Wall Street Journal presented a letter to the American Bankers Association – ABA, asking them that until the end of the third trimester to recognize that fair value is laced of significance within some liquid markets. However, considering the financial mechanisms previously presented, that state the major role the financial institutions had at the root of this financial crisis, can we still "point out" towards fair value? Moreover, much more than this, would the elimination of fair value lead to the solvency of the problems the financial institutions face?

The role of fair value accounting within this process is just to capture the changes appeared in the market prices, as they materialize themselves. Even though the utilization of inadequate assuming in the initial valuation of the mortgages has surely contributed to mastering the actual problems, this represents finally an error of valuation and not a problem caused by the application of fair value accounting per se. That which the fair value actually does is to bring the true dimension of these errors of valuation, in the eyes of the investors, in a short interval of time [52]. The main difference between the reflection of an asset at the fair value or at a depreciation cost is represented by the recognition of some unrealized losses or gains in the alternative of fair value. However, these losses or gains represent in fact changes in the value of future generated incomes by the so-called asset. As a following, coming back to the actual financial crisis, the losses that the banks are ought to confess under the option of fair value, captivates in fact the true impact (upon the present and future incomes) at considering a higher degree of underwriting the mortgage credits that had been already given.

Even if this impact is a significant one, it is just a repercussion of a vicious circle previously formed, and in a certain way, it is not suggested by the utilization of the fair value. Concerning the decrease in the investor's interest for structural derivatives starting from the mortgage credits, it is true that the drawback from these products is nourished by the fair value registration, but this is also the normal reaction that the investors had to have from the beginning towards these products of financial engineering. In other words, the utilization in present of the fair value does nothing but imposes the banks to recognize the existence of some real problems earlier, making possible to take measures and giving them solutions, because they will not disappear by themselves, irrespective to the postponement period. Even more, when these problems are not recognized, the mechanism could continue, enrolling other investors as naives as the previous.

Regarding the argument of the banking industry that the fair value would be irrelevant within the inactive markets, this would mean that the utilization of the fair value would not offer any type of useful information to the investors regarding the true economic value of the concerned derivatives. Nevertheless, as it was shown in the previous detail, the decrease in fair values afferent to these derivatives emitted in the last years is fully correlated with the significance of the non-reimbursement degree in comparison with what is expected at the initial moment of the emission. Since these fair values have the capacity to estimate the impact of a higher degree of non-reimbursement upon the future and present earnings generated by these derivatives, we assume that we cannot consider them lacked of significance. Also based on these assumptions, we consider that a present and a future elimination of the fair value accounting would just 'hide' the current realities, making longer the mechanism's effect that has triggered the financial crisis.

However, beyond the fair value concept itself, it would be advisable to approach the implementation aspect, often underestimated, especially at Europe's Level [51]. The quality and consistency at an international level, regarding the implementation of an accounting referential are vital to assuring a financial stability, as the Banking Supervision Committee shows within Euro system, still before the first signs of the crisis [19].

The actual tendency, that we thought it would continue, of the orientation towards the market-based valuations, in risk management as well as in accounting purposes, it would solicit certain abilities of the valuators, abilities that should be proven. The institutions would have to prove the capacity of affecting intelligent and justified valuations of the assets and debts within the balance sheet, these including complex derivatives as the ones found in the centre of the actual crisis. As in the case of a drivers license, these proves have the role to offer the entity's auditors a reasonable assurance that the valuator has the sufficient knowledge and abilities in order not to receive any damage towards any implied parties [18]. Unfortunately, the financial crisis brought to surface severe cases, in which any type of valuation is not done before the commitment to the investment, and that alternatives were not even searched for to realize some estimations upon the market value when the derivatives were less traded. To these we can add those cases in which are used the derivatives' methods of valuation, but the type of the used methods was so inadequate that it would make any inefficient valuation in taking a fundamental correct decision.

What the current financial crisis has confirmed regarding fair value, is that the most dangerous situation is created when the entire valuation process is based on the entity that transactions the securities, without existing any independent confirmation of the created values, from an auditor or from an entity responsible for risk management [18]. It is about the entry data at the 3rd level, whose utilization is permitted only as a final alternative, in the impossibility of applying the previous two. In addition, in this case, the standards solicits the furnishing some information that would fully permit the investor to give a certain trust degree to the made valuation, taking the best decision in the given circumstances.

Regardless all above-mentioned aspects, remarkable personalities from the banking industry (such as Martin Sullivan, the ex executive director of AIG and Henri de Castries, executive director of AXA) have appreciated the fair value and the vast utilization of the valuations based on the market to be a major factor of the actual financial crisis [27]. Hearing these statements, the European committee Charlie McCreevy expresses, in last year's spring, his concern regarding the impact of the valuations based on the market in the case in which the markets become generally illiquid and irrational [35].

The critics brought to fair value address indeed problematic situations, but the proposed solution, to restriction its utilization, remains unconvincing for at least three reasons. They don't bring any viable alternative, ignores the negative impact that should result from the loss of some information that are presently offered within the financial statements, and affects the distinction between the accounting and prudential concerns, which have in fact different objectives and they should be separated with great attention [51]. The opponents of fair value loose this dispute from the very start, due to the fact that they do not manage to materialize their arguments through actual solutions, or in other terms, they are missing a "counter-offer". If it is easy to identify and underline the fair value accounting's deficiencies, it is not so easy to find an alternative method to better it the relevance, credibility, comparability and intelligibility characteristics that a large consensus and a series of principles attributes the actual standards in the domain.

Trade literature mentions some occasional alternatives, but the arguments are not sufficient and convincing. The historical cost would offer a significant lower degree of the comparability and of the information's relevance, being evidently rejected by the users of the information, especially by the financial investors. Other sources refer to the utilization of some national established prices by the public authorities, representing the fundamental accounting principle of the collectivist type economies, but these have an even lower credibility, at least through the economists' majority and participants within the capital market.

Another important aspect emphasized within trade literature is that such a severe crisis like the current one is not, and could not, be the fault of any one set of parties, but involved the entire economic ecosystem failing to appreciate the risks of the rapid growth in risk-layered subprime mortgages, the inevitable reversal of home price appreciation, and unprecedented global market liquidity [41]. It was all these factors that brought out the undisciplined behaviors in lenders, borrowers, and investors, making them ignore what common sense would have pointed, and that is not to forget about 'fair valuing' the real risk. As [41] points out, "economic policy, bank regulation, corporate governance, financial reporting, common sense, fear of debt and bankruptcy, and all of our other protective mechanisms were insufficient to curb these behaviors". The author also finds the explanation for this type of irrational behavior displayed by investors within Keynes description of behavior underlying upswings in economic cycles:

> Even apart from the instability due to speculation, there is the instability due to the characteristic of human nature that a large proportion of our positive activities depend on spontaneous optimism rather than mathematical expectations, whether moral or hedonistic or economic. Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as the result of animal spirits—a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities.

Fair value accounting or any other valuation method has no chance in eliminating such behaviors. Where fair value plays an essential role, is in informing relatively rational and knowledgeable market participants on an ongoing basis, and providing a common set of information upon which market participants can recalibrate their valuations and risk assessments when the economic cycle turns. This recalibration is essential to occur as quickly and efficiently as possible, as it should nowadays. [41] as many others mentioned before, also notes that any form of historical cost accounting would drag out these recalibrations over considerably longer period, likely worsening the ultimate economic cost of the crisis.

Our pleading in favor of the concept of fair value is not meant to argue that this concept is a perfect one, in the same time being aware that there will be a series of amendments made to the actual standards that will be realized in future, as even IASB's president suggested not long ago [50]. With all these in mind, the goal given to the fair value accounting and market based valuation, does not seem an outraged if we integrate it in the image that presents the characteristics of the financial markets in a world full of development, image in which is reflected the learned lessons from the past crisis. A restriction of the fair value not only that it would not heal the wounds of the actual financial crisis, but on the contrary it would risk to make them worse, diminishing the trust level that the investors and not only, have in financial situations of the financial institutions [51]. Other changes are necessary for facing the crisis' challenges, changes that should solution the deficiencies revealed at different levels.

4 Conclusion

Some current reactions make us think about the past, the Enron collapse inevitably coming to our thoughts. At that time, the new fair value accounting paradigm was progressively incorporated into the framework of Generally Accepted Accounting Principles to serve along with the well-established historical-cost accounting, but, as today, the Enron debacle involved misuses of both paradigms. Then was also an opportunity to argue against "mark-to-model" valuation, and even more to suggest the time of fair value accounting had not yet come [3]. Enron used, to a large extent, level 3 and level 2 inputs for its external and internal reporting. Level 3 valuation was first used for energy contracts, then for trading activities generally and undertakings designated as "merchant'" investments, these fair values simultaneous being used to evaluate and compensate senior employees. As proven later, Enron's accountants (with Andersen's approval) used accounting devices to report cash flow from operations rather than financing and to otherwise cover up fair-value overstatements and losses on projects undertaken by managers whose compensation was based on fair values [7].

The Enron case was a widely debated topic, a large number of analyses being performed on it within trade literature, but results did not find the concept of fair value as culprit. Moreover, it was shown that the lack of well designed and effective, adequate control systems produced opportunities for the abuse and manipulation of fair value accounting [3]. Even under this particular case, the obvious advantage of value relevance information offered by fair value accounting is recognized, but argued that the development of a hybrid accounting system in which historical cost accounting and fair value accounting are used simultaneously distorts the coherency of the reporting system, increases potential income management and "window dressing", and nullifies the effectiveness of the existing control systems [3]. Criticism for the mixed attribute are often met within trade literature [21, 42], but it does not eliminate the merits of fair value accounting. We dare to say that it actually emphasizes the necessity of correctly approaching fair value with all its underpinnings, and suggests it is imperative to be properly implemented in order to function as conceived, this involving also control systems and audit standards issues.

A first reaction to the current financial crisis is once again to blame the fair value, which in its essence is just a simple messenger of the crisis, the causes being others. Indeed it is easy to say that at the basis of a fair value that would have had suffered an artificial increase of the real estate prices, some banks or financial institution would have offered furthermore more and more flexible mortgage credits, meanwhile others would have invested in toxic assets such as CDOs from the same considerate, the guarantee behind this being the same real estate assets extremely over valuated. It is hard to believe that within such a complex system, the incognizance can be as so great that there wouldn't exist responsible parts for the events that happened, other than the fair value, which, hard to believe, after so many decades of elaboration as a concept, could be the basis of the actual crisis.

Both when considering to give a mortgage credit, as well as when an investment is done in a derivative asset, today toxic, the bank, respectively the investor, have the responsibility to evaluate the risk inherent as better as possible, taking into consideration also a pessimistic scenario and its effects. In this situation, the question that is posed is until when is supposed the real estate price to reach in order to take into consideration the risk of decreasing? Unfortunately, it seems that…until the crisis. Even more, over the responsibility of the financial institutions and of the investors, that we put in the same place even though they differ, are found the agents' responsibilities of rating that have the role of improving the informational process between the one who sells the credits and the potential owners of the titles. It seems though, that all the participants on the market have forgotten a basic rule in the world of investment, which says that "when you cannot valuate an element, don't buy it and don't sell it" because lack of information can make you often 'voluntary victim' within the process. Too many implied parts have chosen this time to omit all they knew, and they based their assumptions upon some ratings given too easy to financial institutions, without doing an accurate analysis to the asset in which it was supposed to invest or they would conform to using some more simpler methods, but in the same time inadequate and implicitly un-useful. In the same time, the system caught them, encouraging them because each link passed by the toxic derivatives generates a cash flow at a certain level.

The term of toxic asset was quickly embraced; we are also subscribing to the idea that some derivative financial instruments can be thought with the goal of bringing unworthy revenue, without creating anywhere a plus of value, but this is not a new concept in the world we live in. In order for this type of toxic instrument to attain its goal, it is needed the intervention of some parts, that have the most valuable advantage nowadays, that is the information, reaching in this manner back to issues that regard the informational asymmetry. Our question is why do we call these instruments as being toxic only today, when the crisis is in its full potential, and we did not call them like this in the moment of their acquisition? Probably that if we would have called them in this way, at that certain date, the transaction would have not occurred. As a following, the answer is divided: some from incognizance, and others from a reason much more than a cognizant one, intentionally. That is why he agree that the fair value is a simple messenger, which could really be helpful to those incognizant, in order to wake them up to reality. Moreover, nowadays, when because of the recognition of the fair value, many from the financial institutions have to admit losses, the fair value doesn't do anything besides that in brings us 'with our feet on the ground', because it is better to admit these losses now than to postpone and to fool ourselves with 'historical values' from all points of view.

It is also said that the prudence specific to the continental system would have had a positive impact upon the generated situation. We agree to a certain degree, in the conditions in which we refer to the prudence through the eyes of the investors and not especially the prudence of accounting reflecting. In a first phase, in which the banks gave mortgage credits, they were also the ones who elevated the mortgaged assets, so they did not make the foundation upon a reflected fair value in the balance of the credit beneficiary's part. Following the problem's tracks, the moment the investors bought the toxic derivative assets, these, in their turn, didn't make the fundament of their decision upon a fair value reflected in the investment banks' balance sheet, that wanted to place these complex structured shares of the special purpose entities, and they acted through the market's inertia on which the demand determined an increase in the value of these titles. Maybe if the fair value problem were raised, a problem that they should try to valuate taking into consideration the existent risks, but ignored by the system, the investment would have seemed safer, and the propagation of the effect would have been stopped. This is also valid in the case of the banks that if indeed would have realized a valuation of the fair value in the real sense of the notion, these imposing at the level 2, an adjustment in function of the private risks, the value on the market being used as a part from the crisis effects. These would have been realized, on one side, by offering a better image over the value of these toxic assets, and on the other side by stopping the further realization of certain investments in such assets.

Here it is all about the necessity of developing a better distinction than done before the crisis, when referring to financial reporting, as it concerns companies, especially listed ones, and the prudential norms imposed by the financial institutions supervisors. The accounting expression of the equity's valuation is simply not the best method of analyzing the bank's equity, by an investor with prudential concerns [51]. As a result, we cannot state that the solution would be constituted by the historical cost, having in mind the complexity of the derivative asset, but better to consider a fair value that implies the prudence in valuating risks, aspect that the concept covers. In other words, the saving could have come partly from certain prudential norms, and not from a prudential accounting. Alternatively, it seems impossible for us that no one inside the system could have thought at the risk that the real estate price to fall at a certain point. Even more, as we have shown in the presentation of the norms issued by FASB, SFAS 159 introduce the fair value as an option, with a mandatory character and a correct implementation and it could have benefic effects in this situation.

As a conclusion, in order to maintain the opinion through which the fair value cannot be considered guilty for the actual financial crisis, but only a messenger of it, case in which some reactions can be understood, because we all know the general reaction towards the manager. In other words, the concept of fair value has the role to bring us as close as possible to reality, fact that could be realized through a correct implementation and a greater transparency. It is also true that many aspects have to be reconsidered and adapted on the way, because there is not another domain in which innovation could have a greater influence than in the financial one. It is also evident the fact that the derivative financial instruments can have negative effects, but their innovation is in the fact that they offer the possibility of keeping away the risk from the source towards parts which are ready to manage it in changing a potential reward. As a financial instrument is simpler, it leaves less manipulation space, but this does not mean that the utilization of derivatives disappears entirely. Where do these instruments become toxic? Where the transparency and the information are lacking, or we cannot think of another concept of the value that could propose itself to offer more information than the fair value. The way it would succeed remains to be seen, but a thing is for sure: that we cannot sacrifice such a concept in order to find something to blame on for the actual financial crisis. The process of fair value determination itself has to be advertised to the investors, to gain their trust, fact required by the actual regulation that solicits a series of supplementary information, as we have presented in detail. As a following it would be needed that, we all learn from the past and each part of the financial system should revise their role, attributions, and responsibilities, encouraging the informational transparency.

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Appendix 1 – List of Journals Used for Empirical Analysis of Fair Value Opinions

Abbrev.	**Journal Title**
ABACUS	Abacus
ABR	Accounting and Business Research
AF	Accounting and Finance
AH	Accounting Horizons
AOS	Accounting Organizations and Society
AR	Accounting Review
AAR	Australian Accounting Review
CAR	Contemporary Accounting Research
EAR	European Accounting Review
JAE	Journal of Accounting and Economics
JAPL	Journal of Accounting and Public Policy
JAR	Journal of Accounting Research
JBFA	Journal of Business Finance and Accounting
MAR	Management Accounting Research
RAS	Review of Accounting Studies
REFC	Revista Española de Financiación y Contabilidad