Accounting and Management Information Systems
Vol. 8, No. 2, pp. 126 – 161, 2009

AIR JUDGING FAIR VALUE UNDER CRISIS CIRCUMSTANCES

Dumitru MATIŞ and Carmen Giorgiana BONACI[1]
Babeş-Bolyai University of Cluj-Napoca, Romania

ABSTRACT

Under current circumstances of the financial crisis, many fingers have been pointing toward fair value accounting for financial instruments as being at the root of this situation that supposable "got out of hand". We argue that it is just another case of shooting the messenger, by proving where things really went wrong, and who can indeed be considered responsible within the formed vicious cycle. This is done by analyzing on one hand the financial mechanism of derivatives involved within the credit crisis, namely collateralized debt obligations (CDOs), and on the other, the foresights of the American accounting referential, while considering involved parties. 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. Previous cases invoking valuation of financial instruments, such as Enron, are also discussed. Still, the conclusion is that not only fair value accounting cannot be blamed, but also it could have helped reducing the crisis' proportion, if used properly.

Fair value, financial crisis, hierarchical level, prudential concerns, value relevance

INTRODUCTION: WHERE ARE WE NOW?

The use of fair value is a long debated subject, during last 12 months, big financial institutions recognizing, financial statements' frame, loss of more then 150 billion $, mostly under the use of market values (Beller *et al.*, 2009). Meanwhile, SEC is investigating the possibility of use, from some entities under research, of different

[1] Corresponding author: Carmen Georgiana BONACI, e-mail address carmen.bonaci@econ.ubbcluj.ro.

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 resented 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 valuate 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 valuate the assets and debts and even then, when the result is a significant diminution. Michael R. Young[i], 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 Beeler, 2009)

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 un 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) (Beeler, 2009). 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.

1. METHODOLOGICAL APPROACH

We start our scientific demarche by formulating the hypothesis that fair value accounting is not to be blamed for the actual financial crisis, and hereafter try to prove it by going to the roots of the current state of facts. The starting point in our analysis consists in gathering opinions on fair value within trade literature. Therefore, we have used the literature review section and turned it into an empirical analysis, with the purpose of catching a glance on current opinions on fair value. We have chosen to closely analyze all papers whose topic comprised issues dealing with fair value and were published in one of the journals comprised within the Thomson Reuters Master Journal List, for the 2005-2009 period. Since the crisis became visible in 2007 we went 2 years backwards with our analysis, and forward to the last issues published in 2009. A list showing all journals comprised within the analysis is presented in Appendix 1. This allowed us to analyze both previous and post crisis opinions, since we have found only one paper that approached fair value in connection with the current financial crisis, within the considered issues of the above-mentioned journals. The result, we consider, 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* (FASB, 2006) also formed the basis of the IASB's relevant discussion document (Danbolt and Rees, 2008); 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

2. EMPIRICAL ANALYSIS OF OPINIONS WITHIN RECENT TRADE LITERATURE

As mentioned before, we have used the literature review section of our paper in order to dimension various opinions on fair value within trade literature. 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:

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**

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)[ii]. 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. Beeler (2009) 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.

As shown in previous researches, prior empirical research on fair value measurement is mostly limited to financial instruments (Matis and Bonaci, 2008). We have therefore divided the selected papers on empirical and theoretical studies, while considering if they have approached financial instruments fair value, general aspects on fair value or fair value of other specific elements. The findings are as follows:

Table 2. **Research method and studied topic of fair value papers published by ISI Journals in 2005-2009**

Approached topic Research method	Financial instruments	General	Other specific elements	Total
Empirical	8	1	5	14
Theoretical	8	14	3	25
Total	16	15	8	39

Even when considering a limited number of papers as we did in our study, researches 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. General aspects regarding fair value accounting have also been largely debated among the considered studies, but this time theoretical researches seem to have an overwhelming majority. This also is explainable through the tumultuous period registered at the level of conceptual developments in this area. 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 a thousands ways before making a statement. This was also the fact when analyzing the selected papers, which are summarized within Table 3.

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 Danbolt and Rees (2008) 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 3. ***Summary of fair value papers published by ISI Journals in 2005-2009***

Topics and subtopics	**Papers and their publishing Journals**
Analysis of fair value accounting at a general level	
FASB referential	Botosan et al. 2005 / AH; Benston 2006 / JAAP; Ronnen 2008 / ABACUS; Smieliauskas et al 2008 / ABACUS; Turley 2008 / ABACUS; Benston 2008 / JAAP;
Alternative approach to FASB's view	Bradbury 2008 / ABACUS; Whittington 2008 / ABACUS; Danbolt and Rees 2008 / EAR; Hilton et al 2009 / JAR;
Pluses and minuses	Trowell 2007 / AAR; Penman 2007 / ABR; Hitz 2007 / EAR; Plantin et al. 2008 / JAR; Hemmer 2008 / JAR;
Capital market research	Landsman 2007/ ABR; Deans 2007 / ABR;
Opinions generated by accounting practices analysis	Kosmala 2005/EAR; Broadley 2007/ABR;
Fair value for all financial instruments	Tan et al. 2005 / AAR;
(Net) Fair Value Accounting for forward contracts	Bradbury and Prangnell 2005 / AAR;
Fair value for liabilities	Chasteen and Ransom 2007 / AH; Barth et al. 2008 / TAR;
Cash flow hedge creating a mixed attribute	Gigler et al 2007 / JAR; Shin 2007 / JAR;
Employee stock option	Aboody 2006/RAS; Landsman 2006/ RAS; Hodder et al. 2007 / CAR;
Executory contracts	Walton 2006 / ABR;
Fair-value pension accounting	Hann 2007 / JAE;
Measurement of no financial assets in imperfectly competitive market	Reis and Stocken 2007 / CAR; Reis et al. 2008 / CAR;
Valuation of intangible assets	Beatty and Weber 2006 / JAR; Bens 2006 / JAR; Kimbrough 2007 / TAR;
Valuation rules	Ikaheimo 2006 / EAR; Sunder 2008 / AH;
Auditing fair value measurements	Martin et al. 2006 / AH;
Financial crisis	Ryan 2008 / TAR;

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. Our findings are presented within the following table:

Table 4.1. **Opinions on fair value accounting expressed through papers published by ISI Journals in 2005-2009**

	Financial instruments			**General**			**Other specific elements**			**Total**
	pro	against	neutral	pro	against	neutral	pro	against	neutral	
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

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.

We also considered another interesting aspect to observe through analyzing the pros and cons within the sample studies as divided within the three periods considered around the financial crisis. This should allow us to observe either these opinions have been significantly affected by the financial crisis that penetrated capital markets around the world. The corresponding results are presented within the following table:

Table 4.2. **Opinions on fair value accounting expressed through papers published by ISI Journals in 2005-2009**

Period	**Financial instruments**			**General**			**Other specific elements**			**Total**
	pro	against	neutral	pro	against	neutral	pro	against	neutral	
2005-2006	4	2	0	3	0	0	2	0	1	12
2007	2	0	2	1	2	2	0	1	3	13
2008-2009	4	1	1	3	3	1	0	0	1	14
Total	10	3	3	7	5	3	2	1	5	39

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 Ronen's (2008) 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 Whittington's (2008) 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 Ryan's paper (2008) 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 where 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. MAIN PROVISIONS OF THE AMERICAN ACCOUNTING REFERENTIAL

The multitude of American accounting regulations that referred to fair value, the majority in the field of financial instruments, often the intersection of their foresights, but also the adjustments gradually imposed by the evolution of financial systems, emphasized through increasing the level of acceptance of fair value as valuation attribute, noted the need of developing of a standard with wide applicability, a kind of a framework to ensure high level procedural advice in order to offer consistent estimates.

Considering the above presented aspects on fair value, together with the context in which the American accounting regulations from the beginning of the 21st century are included, we can describe two essential motivations that determined the FASB to develop a standard that would represent a framework, which would be used for estimating fair value, and which could be applied to a wide range of financial and non-financial assets (Botosan *et al.*, 2005). On one hand, the set of accounting standards available around 2004 did not include a unique source of general guidance, valid in the attempt of defining and estimating fair value. The guidance that concerned fair value could be found mainly in a series of intersected and "patched" accountancy standards, which referred to financial instruments. On the other hand, the exiting accountancy standards showed an increasing level of the acceptance of fair value as attribute of valuation (in comparison with the depreciation cost). Assuming that there is a high probability that future standards will include valuation at fair value, the definition of this concept (fair value) as attribute of valuation – accompanied by procedural guidance at the highest level, and concerning a consistent estimation of the concept – became a priority in the goal of the efficient application of already existing or new standards.

Previous to the issuance of SFAS 157, a series of fair value definitions and limited recommendations regarding its applicability were spread within more pronouncements emitted by FASB, the existing differences generating in this way inconsistencies of the American accounting referential, without discussing about the effect that these had over the complexity of the applicability of US GAAP's. FASB reacted in this direction, elaborating SFAS 157 with the goal to increase the degree of consistency and comparability in the domain of fair value valuation, as well as for determining the offer of further information regarding the realization of this process, value reflected without value only if it was accompanied of other joint information. This new standard plays the role of a conceptual frame of fair value valuation in the American accounting referential frame, determining changes in the accounting practices of some of the entities, without imposing new valuation of fair value, but only through requirements applicable to situations that impose or permit this thing through other accounting requirements emitted by the Board.

SFAS 157 brings additional rigor concerning the estimation of fair values, especially through its central component of describing the fair value hierarchy, presenting the three levels of the entry data afferent to the valuation pattern that can be used. Every level reduces the credibility and relevance degree of estimated values, but it is the reality consequence in what concerns the reduced possibility of use of the superior levels. Excepting the transacted value securities, generally, the identification of some assets and debts identically transacted between active markets is not possible. In these situations, the standard allows observed assets to be adjusted in such a manner that it allows the quantification of the differences between the valuated elements and those similar elements with a determinable valuation. These differences may reflect different conditions, locations as well as other constraints concerning the vendibility of the valuated elements (Miller and Bahnson, 2007). Of course, in parallel with the acceptance of a series of adjustments through these levels, in which there use must be considered in a successive manner, starting from the first level, the choice of one of the three depending on the existing conditions at the valuation time, FASB makes effort in not loosing control over the effect of this flexibility. We are referring here of the many solicited details to be presented, so that the users of the information supplied by these valuations have the possibility of knowing the way in which the estimate fair value was realized. However, the contribution of SFAS 157 is not questionable in transferring a series of accounting standards to the XXI century by increasing the fair value estimation rigor.

The standard created by FASB in the autumn of 2006, SFAS 157 - *Fair Value Measurement* seems, on one side, to judder the foundation of historic cost based valuation, but, on the other side, appears harmless because it does not impose the use of fair value on a wide scale (Miller and Bhanson, 2007). In fact, the truth lies, as usual, somewhere in the middle, in the way that the standard acts both ways.

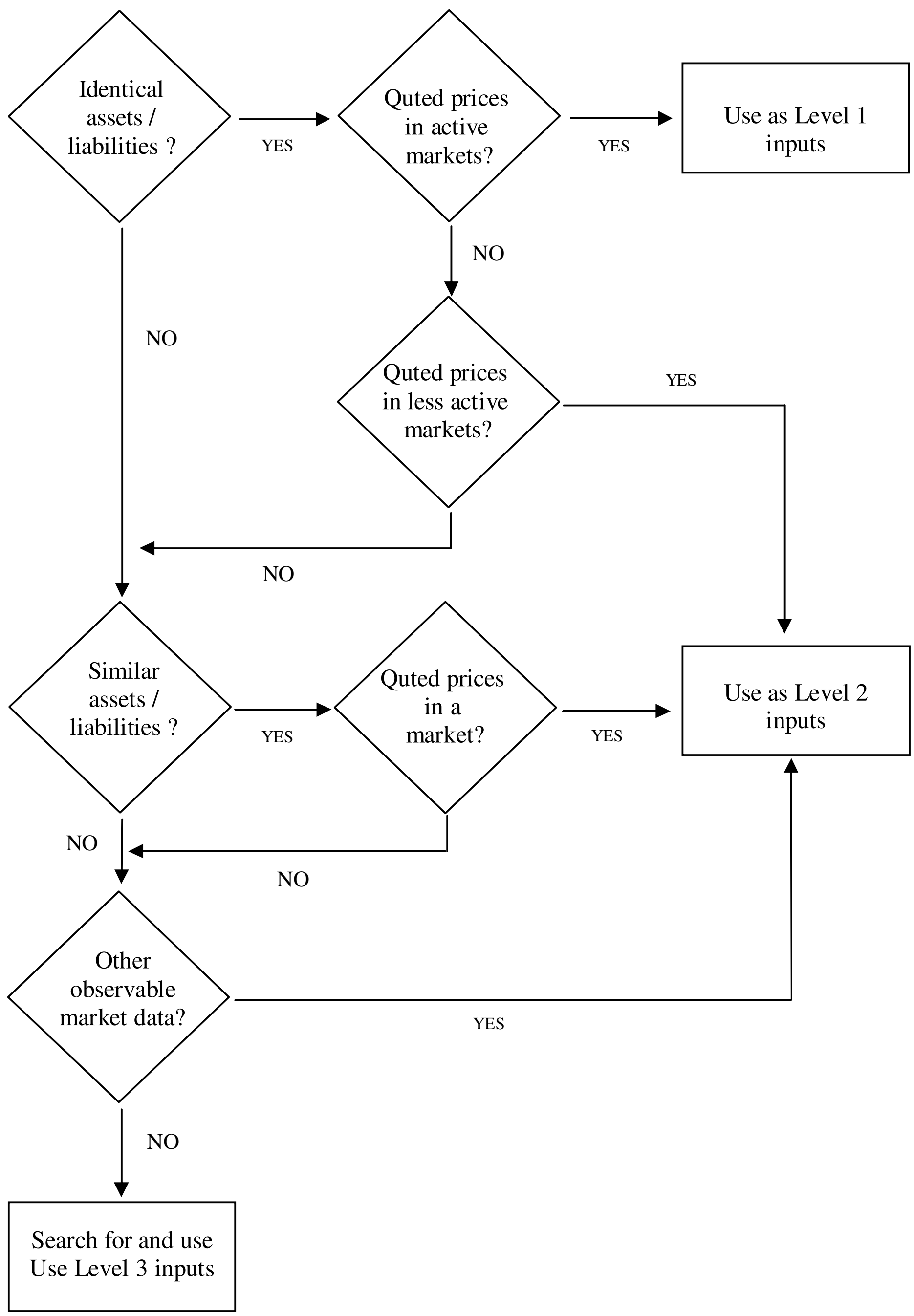
Indeed, the new standard does not impose the use of fair value in situations other than the ones already mentioned by previous standards. However, SFAS 157 modifies the 'status quo' in three essential ways. We refer here to the fact that the level concerning practical aspects is being raised, a new series of factors that must be considered is emerging. These factors must be taken in consideration when those fair values already mentioned in existing GAAPs are valuated, so that the valuation process can disclose information that is more important. Another effect was that the introduction of SFAS 157 cleared the way for SFAS 159 - *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 created the possibility for fair value to be introduced and used in new ways. Another merit of this standard was that it prepared the field of financial reporting for the new Conceptual Framework developed by FASB. We rely on these affirmations and on the preliminary aspects contained in the (PV) *Objective of Financial Reporting and Qualitative Characteristics of Decision - Useful Financial Reporting Information*, introduced in 2006 by the same FASB These stated that the fair value will be ultimately preferred as an valuation attribute in financial reports (FASB, 2006). In this context, the introduction of SFAS 157, was meant to clarify and put things in order, is fully justified. It is thus clear that the objective of the issuing of SFAS 157 is to bring uniformity and consistency to the professional literature, and to accountancy practice. One of its great contributions resides in the fact that it offered a real catalog of situations in which fair value is used, and a standard annex presenting more than 60 cases in which fair value is valued and reported.

SFAS 157 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date". Some elements of this definition, such as "at the measurement date" and "orderly transaction" have been largely debated, critics suggesting they inevitably exhibit a temporal slippage in severely illiquid markets that yields significant practical difficulties for preparers of financial statements (Ryan, 2008). Asking preparers to imagine hypothetical orderly exit transactions at prices reflecting current information and market conditions, even though actual orderly transactions might occur at quite distant future dates, does not lake preparers far toward determining their fair value measurements.

Moreover, when market information about the fair values of positions is sparse, SFAS 157 allows preparers to report internally generated fair value measurements that, in principle, could overcome this temporal slippage (Ryan, 2008). The direct result, of course, was that during the subprime crisis preparers have found it difficult to convince auditors and others of the reasonableness of internally generated measurements, because numerous fire sales by illiquid firms or capitulations by firms wanting to remove the perceived taint from their balance sheets have occurred at lower values.

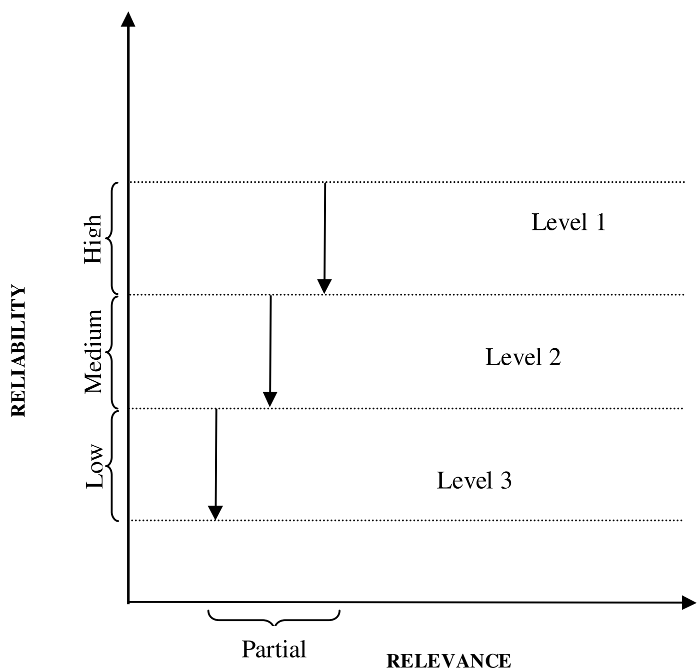
The core component of SFAS 157 is the description of Fair Value Hierarchy (paragraphs 22-31), that identifies the priorities that management should respect when estimating fair value of assets and liabilities. This hierarchy describes the input data of valuation methods, without specifying what models should be used. In fact, these inputs represent the assumptions that market agents would use when valuating the value of an asset or a liability. They can be represented by "visible inputs" and by invisible ones (invisible inputs). Visible inputs are based on the information provided on the market – thus belonging to independent sources – while invisible inputs represent the assumptions generated by the reporting entity, assumptions which would be used by the participants on the market to valuate the respective asset. The connections between the three levels of input data considered in this standard are described in figure 1.

Figure 1. **The hierarchy of inputs belonging to valuation models considered by SFAS 157**



This differentiation of fair value on 3 levels has become already a well-known concept in the field of financial reporting, trade literature referring to assets and liabilities in relation to the levels of inputs used in providing information about them. It is obvious that the assets belonging to level 3 capture our attention nowadays because they usually represent "artificial" financial instruments, and because companies have the biggest problems when they implement SFAS 157, due to the absence of share prices determined by trade on active markets, thus an valuation based on the entities' own models is needed (especially when that entity is a bank) (Beeler, 2009). The manner in which the three levels combine reliability and relevance characteristics can be represented as follows:

Figure 2. **Reliability and relevance of the three levels within SFAS 157 hierarchy of inputs to valuation models**



When applying this hierarchy for subprime positions, we should mention that, under normal market liquidity, many of them would be valuated at fair value by using level 2 estimates. It is true that mortgaged backed securities (MBS) normally are thinly traded over-the-counter, but dealers generally do their best to provide bid and ask prices for these securities (Ryan, 2008). What further happened was that price transparency substantially evaporated during the subprime crisis. This inevitably transferred many subprime positions that were previously estimated using level 2 inputs toward a level 3 valuation. While all opinions within trade literature and even well-known press criticizes the use of level 3 inputs and recommends its limitation, under these circumstances, it was 'out of the practitioners' hand'.

SFAS 159 is the one who comes to exploit the launching ramp built with the help of it's predecessor, introducing the option of fair value to assets an financial debts, which can be selected individually by the reporting entity, soliciting on the other hand of an additional series of information, so it can allow the users comparisons between financial situations that use different valuation basis. The merit of this standard is to encourage the use of fair value in valuating financial instruments, through a relative simple method of application of the fair value option in comparison to the one belonging to IASB. IAS 39 also intends to promote fair value, but the amendments brought in 2005 as a consequence of pressures coming from UE relations actually restrict the fair value option. On the other hand , IAS 39 is elaborated in such a manner that the option of fair value comes from the definition of different types of assets and financial debts, more likely as an valuation principal, this way becoming extremely complex if not inscrutable most of the times (Cairns, 2005). At once with the flexibility of the standard, they also rise the difficulty of developing a professional reasoning of the audits in valuating the facts and the circumstances of using the fair value, to appreciate is the choice is made to reflect the economic reality or for obtaining a certain accounting result (Ratcliffe, 2007).

Issued only 5 months after SFAS 157, SFAS 159 encourages the reporting entities to choose the fair value option in valuating the eligible financial assets and debts, while once chosen this option becomes irrevocable. Some voices within trade literature seam suspicious regarding the chosen moment for the issuance of this standard, considering that it could have been a reaction regarding the future crisis that was about to manifest. Many entities hoped even in a postponement from FASB's part for the implementation term of SFAS 157[iii]. The sub-prime market issue creates damages within diverse capital markets around the world. Many entities were obliged to reduce the value of the assets reflected within the financial statements, because not only the burst of the housing bubble, but now also because of the implementation of SFAS 157. Through the aid of the optional criteria highlighted within the SFAS 159 standard regarding certain assets, some entities could even find modalities to loosen up this descending spiral, even though for a short period of time (Beeler, 2009).

The opinion of many specialists in the area support the development of the two reference standards in the line of fair value, predicting on a long term, a decrease of the importance of traditional financial reporting based in historic cost in parallel with the gaining of this terrain by the financial reporting based in fair values. In fact we can say that this process of turning down the values has already been initiated, in a way or another, decades ago, not representing a surprise in our days, SFAS 157 and 159 being introduced in this tendency manifested along time (Miller & Bahnson, 2007).

Taking into consideration the analyzed aspects within the American accounting referential regarding the fair value, correlated with the elements of the actual financial crisis, it is expectable that entities to gradually, some of them even suddenly, move away, when possible, from the usage of level 3 inputs in estimating fair values. This level does not represent a sufficient degree of credibility, being to subjective in the vision of many investors. The credibility seen through the investors' eyes is greater that when the information is offered through the aid of financial situation, are offered using the entry data from level 1 and 2 (Beeler, 2009).

Even if SFAS 159 brings the optional criteria, the necessity of reducing asset value shown by entities within financial situations will continue, until the complete implementation of SFAS 157, this enforcing as previously shown, certain changes in current accounting practice of some of these entities. With his positive aspects and negative, the valuation at it's fair value can be seen, in the financial reports table, as having a permanent characteristic, being in fact 'the lesser evil'. From this perspective, if the future is that the fair value is to be implemented in full, then it is obvious that all entities will have to face this issue eventually. As such, a continuation of the implementation process would be preferred to an extension of the effect in time. We all agree that, at present, reestablishing investors trust is necessary, but at the same time, a delay of the implementation could make these asset value decreases within financial situations repeat in time, year after year, thus damaging even more this trust. (Beeler, 2009).

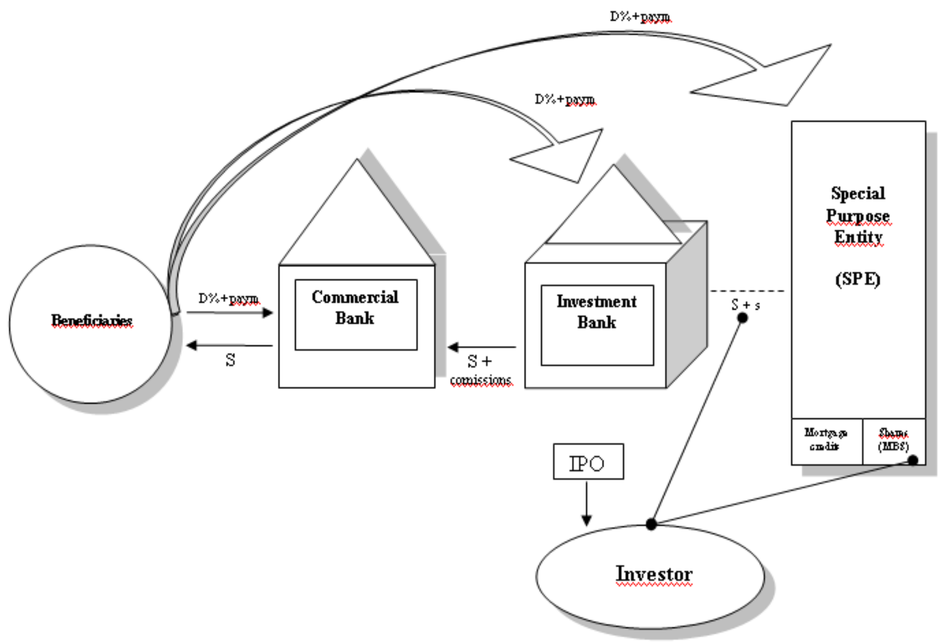
4. IS FAIR VALUE TO BE BLAMED OR ARE WE JUST 'SHOOTING THE MESSENGER'?

The degree, to which the actual financial crisis is related to the valuation of the fair value, could be judged only after a short introspection within the mechanisms, which in time, have created a situation with a high degree of problems raised on the capital markets around the world. That is why we have to start with the origin of the problems appeared on credit markets, and more specific, mortgage backed securities and different financial instruments, more or less complex, generated on its basis. We will refer here to the securitization technique, which consists in transforming the existent credits in titles on the capital market. Appeared in the 70's across the Atlantic, as consequence of the credit regulations, in the following years this was spread over more domains: from mortgage credits to receivables over bank credits, and it has known a tremendous increase in Europe, after USA. Securitization notion has 2 related significations. First, it is synonymous with financial disintermediation, emission of securities in such way that the ones who borrow can contact directly the ones who have the economies, at the place where the bank crediting is offered. In this acceptation, securitization is long time present on the capital markets, where big firms are regularly financed through bound emissions, starting with the 80's, short term title emissions heaving increased considerably. The other acceptation defines securitization as being the transformation process of credits in securities in a future step. This time the goal is to erase the credits from the creditor company's balance sheet. This securitization form was born on the American mortgage market. The regulations from a certain moment have put a barrier for the transfer of the economized surplus to some federal states with a deficit, the correction of such regional deficits being made through the organization of an active commerce with credits.

In its original version, the mortgage credit supposed a loan that the bank offered to the beneficiary in other for the last one to be able to acquire a house, which at its turn became the guarantee that the beneficiary will pay the bank in time the parts of the loan, and also the afferent interest. Initially the mechanism through which the banks realized to assure the supply of this type of credit, was based on constituting some deposits of other investors, to whom, of course, it would have paid a lower interest than the on perceived by the beneficiary of the offered credits.

Considering that some commercial banks were interested in recovering as soon as possible the mortgaged credits form placed resources, the innovation of its selling to the investment banks appeared. In this way, the investment banks had to overtake the receivable over the rates of the mortgage credits, as well as for the afferent interest, all the cash flows of the beneficiaries from the mortgage credits, sold in this way, they will be oriented towards investment banks. Commercial banks' interests that have initiated the mortgage credit, was that they served their clients without locking their funds for a long time, and of course they preceded a series of commissions from the investment banks that took the mortgage credits. As a following, the mortgage credit transfer already appeared, from commercial banks to investment banks. The plus that investment banks have to do next, in order to maintain there mortgage credits in their own balance sheet is the creation of some Special Purpose Entities, whose actives could be formed by these receivable securities, materialized in mortgage credits overtaken by the investment banks from the commercial banks. These new special purpose entities will surely emit own shares that investment banks will sell on the market, as much as possible at a higher level than that of the assets (materialized in mortgage credits) the entities owned. For a long period of time this sell without an "earning" was possible due to the fact that the investor's appetite was maintained through the increase in support assets' price of those certain securities, especially in real estate. Special Purpose Entities' shares were sold by the investment banks ok the capital market through initial public offering. Through such a sale, investment banks recover more than they have paid to the commercial banks in order to overtake the mortgage credits, obtaining in this way a profit, and the mortgage credits, as assets (receivables) of the new opened special purpose entities become a receivable held in fact by those investors through the aid of purchased shares. Of course, that all the pays (rates and interests) made by the beneficiaries of the mortgage credits, from which our explanations have started, will arrive now to these special purpose entities. The next scheme makes a synthesis of the influence of the investment banks:

Figure 3. *Mortgage credits' transfer system*



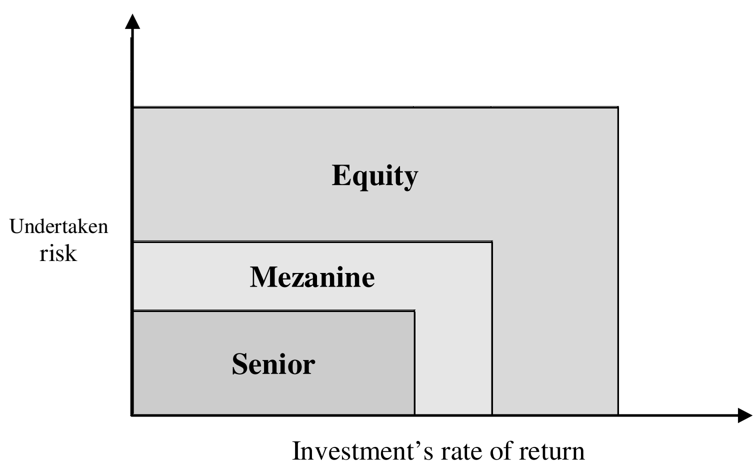
Those shares issued by these special purpose entities are known in the specialty literature as Mortgage Backed Securities, representing in fact valuable securities covered/backed up by a mortgage receivable. Furthermore, we will refer to them as MBS. They represent value carrying securities that can be transitioned by the entity, offers the entity the right of encashment rates and interests, encashment guaranteed through mortgage. In this situation, if one of the mortgage credits' beneficiary could not face up the payments, the entity has the right to sell the mortgage property in order to recover the investment. It is shown in this way how the intermediary chain in mortgage credits is longer and longer, each link following its own profits through the creation of its own joint point, when, in fact, the main connection is between the beneficiaries of the loan and the ones who actually finances the loan, the investors that buy value carrying securities like MBS, emitted by a special purpose entity. This approach from the investors point of view is different from the simple offering of a loan, because by owning the MBS, the investors have the right to receive the rates and interest the beneficiaries owe, but in the same time they guard a low share resulting from the fact that this value carrying security can be transitioned according to circumstances. In other words, the value carrying securities assures the investors a certain liquidity regarding the market within which they are transitioned. An issue is the valuation of these MBS, this being influenced by a series of factors that have to be taken into consideration, such as the probability that the mortgage credit's beneficiary could not make the payment on time, that they will pay back the credits in advance, the evolution of the interest on short term, all of these needing complex valuations based on models, more ore less well used. We will reduce the entire scheme of the previously discussed links, in three parts that remain directly implied at the final of the mechanisms, commercial banks and investment ones being considered as intermediaries. The three parts are: the beneficiaries of the mortgage credits, the special purpose entities and the investors that buy the shares emitted by these organisms.

The goal of this simplification is a better understanding of the modalities in which we will derive furthermore the value carrying securities emitted by the special purpose entities. After the acknowledgement of certain steps implied, each one leaving their mark in a corresponding way through accounting reflection within each of the previously mentioned entities, we could simplify things, as we will show in the next lines. The beneficiaries of the credits will pay rates and the afferent interests for the credits, and the modality in which the special purpose entities will distribute these payments made by the beneficiaries towards the investors depend on the stock market, and not only, or else said "no risk, no winning". Nevertheless, once again, we turn to valuation problems, because each investor is responsible in valuating the risk's limits that he can manage in correlation to a multitude of factors, more or less controllable.

In this way, considering the value carrying securities that the special purpose entities wish to sell, there will exist a series of investors that will accept a lower income in the conditions in which they will benefit of a certain security, but also there will exist a series of investors that can be attracted only by the possibility of obtaining a high revenue proportional with the expectations. It is possible that in this situation, some of the investors to have certain boundaries related to the perceived risk imposed by the law, as for example the mutual funds. The modality to answer the interests of as many as possible investors is through the creation of an instrument derived from the value carrying securities emitted by the special purpose entities (MBS). In fact, this is also the role of derivatives, obtained by the division and structuring of an asset in such way that risk dispersion is made through a derived asset from the original one.

The mechanism for developing such a derivative can be explained in the same circumstances previously mentioned, with the only difference that, the special purpose entity will not emit MBS having the same characteristics, but, first of all, it will structure these securities in three big categories or trenches. These three trenches are known in the specialty literature as Senior, Mezanine and Equity. That which differentiates the investors in the 3 groups is the assumed risk and the gained reward. The investors having securities in Senior trench accept a relatively low rate of profitability of the made investment, but also the assumed risk is low. The Mezanine trench has a profitability rate and a risk slightly increased. Both trenches are protected by the securities from the Equity trench, which brings a much higher profitability rate, but also a considerable risk. In other words, having the conditions in which the special purpose entity is in the situation that it doesn't receive the rates and afferent interests of some of the mortgage credit beneficiaries, the investors in the Equity trench will be the ones who will cover the effects, diminishing correspondingly the sum that otherwise will be gained, and protecting them in this way from the other 2 trenches. In order for the investors in the first two trenches to be affected by the risk that some of the beneficiaries could not afford to pay the obligations, would mean that the special purpose entity could not recover, through the valuation of the mortgaged assets, that part financed by them. In other words, when all the payments are made in normal conditions, the sums from the beneficiaries are distributed to all three trenches of investors, the highest profitability rate is found in the Equity trench. When some of the beneficiaries stop making their payments and the valuation of the mortgaged assets is made at a lower level, the "registered loss" is suffered in a graduate way by the investors starting from the Equity trench. The medium interest that the beneficiaries have to pay for the contracted mortgaged credit is in such way divided in accordance with the financed sums within each trench, wit an increasing rate towards the Equity trench. The structure created in this way has a form of Collateralized Debt Obligations (COD), more exactly Mortgage Backed Collateralized Debt Obligations; such a derived structure could be realized with any kind of loan guaranteed by an asset. The next scheme reflects the derived structure described above:

Figure 4. **CDOs structure**



The reason we have insisted on this short incursion in the credit market's mechanisms, is the fact that in the actual crisis on the sub-prime[iv] market in USA is due in a great part to the attaining of a peak of incapability to pay back the contracted credits, the derived instruments ad the ones described above being present on capital markets around the world, being related to a series of factors more or less suitable. It is sure that, nowadays the effects of the crisis have managed to reach even economies that tended to represent optimistic scenarios, hoping that a certain minus on the less developed national capital markets, will be this time an advantage the lack of efficiency theoretically representing a break in information flow at the market level.

Considering the current circumstances, it is quite difficult to delimit which are the actual problems and which are the causes. It is certain that in the financial system, the one that should mobilize the financial resources with the purpose of adding value in the economy by assuring the transfer of the disposable capital between the investments or the projects, stopped in nowadays to accomplish this function, being more interested in self-preserving. The main factors that led to this situation are, really, those derived instruments, now called as toxic, created based on complex structures, but which depend in fact of mortgage credits offered by banks and the previously described mechanism. In the moment the interest rates grew, the beneficiaries started not to pay their rates and interests at time, this being a mass phenomenon, it is explicable why the real estates fell. In this phase, already there was a series of banks that had portfolios of derived instruments such as CDOs, whose value has constituted a major problem for the banks. We say this thing because a significant decrease in the value of this type of assets, now toxic, from the banks' assets, could, evidently, lead to a lower value of the assets related to the bank's debts, and implicitly to a negative own capital. We could make here a comparison between the situation of the beneficiaries who now own houses at a value much lower than the contracted mortgage credit, and the situation of the banks that in a similar manner through the same effect, has now an asset portfolio much less valuable than the debts it had, both reaching as a conclusion to a negative own capital. In this situation, the market price of the shares from those banks fell down significantly, resulting in liquidity problems and nobody trusting the bank loans.

A lack of liquidities therefore being created, while the banks were not offering any loans, USA's government plan was to buy these assets, declared toxic, with an inert value held by banks, with the purpose of realizing a liquidity insertion within the banks, and hoping that through this action they will re-establish the trust on the market, eliminating these toxic assets from the banks' spread sheets, and unlock the loan issue. The problem is that in nowadays conditions, the banks are not reacting as it was hoped to, and from a prudent point of view, they could keep the money received in the situation in which other assets from the balance sheet can prove to be toxic, case in which the plan would not function anymore. This is the reason we have stated that the financial system is in a self-preserving phase, and the effects are felt globe wide.

5. EVIDENCE POINTING FAIR VALUE IS JUST AN 'ACCOUNTING SCAPEGOAT'

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. On 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 (Deventer, 2008).

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 (Deventer, 2008). 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 (Deventer, 2008).

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 valuating 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 (Wallace, 2008). 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 valuate 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 seams 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 (Wallace, 2008). 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 (Veron, 2008). 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 (European System of Central Banks – Banking Supervision Committee, 2006).

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 (Deventer, 2008). 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 (Deventer, 2008). 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 (Hughes & Tett, 2008). 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 (McCreevy, 2008).

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 (Veron, 2008). 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 nor 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 (Ryan, 2008). 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 Ryan (2008) 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 (1936) 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 (Ryan, 2008). 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. Ryan (2008), 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 (Tweedie, 2008). 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 (Veron, 2008). Other changes are necessary for facing the crisis' challenges, changes that should solution the deficiencies revealed at different levels.

The financial crisis has re-brought into discussion certain zones' (components) within the capital market that are less regulated and controlled (mortgage market, security asset market, derivative instruments market). A clear effect the financial crisis has is the rethinking and reforming of the financial systems through the introduction of new measuring systems and valuation of financial risks but also through the exercitation of a greater control by the regulatory institutions at the level of the investment funds, pension funds, life insurance funds and mortgage credits (Paun, 2008).

CONCLUDING REMARKS AND REFERENCE TO OTHER WELL KNOWN VALUATION MISFORTUNES

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 (Barlev & Haddad, 2004). 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 (Benston, 2006).

The Enron case was a widely debated topic, a large number of analysis 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 (Barlev and Haddad, 2004). 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 (Barlev & Haddad, 2004). Criticism for the mixed attribute are often met within trade literature (Gigler *et al.*, 2007; Shin, 2007), 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 valuate 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 seams 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 seams though, that all the participants on the market have forgotten a basic rule in the world of investment, which says that "when you can not 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 to 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 (Veron, 2008). 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 seams 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 can not 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. If this entire work didn't succeed to turn you over the side of fair value, we conclude by saying what Churchill once said about democracy and that is: "the worst system with the exception of all others" (Veron, 2008).

ACKNOWLEDGEMENTS

The authors' research activities for this paper have been funded by the research projects CNCSIS 2571/2009 "Developing a conceptual integrated and self sustainable model regarding financial reporting within Romanian private sector entities", CNMP 92-085/2008 "Developing a functional model for optimizing the national strategy regarding financial reporting within Romanian private sector entities" and CNCSIS 316/2007 "Developments and inquires in accounting for financial instruments".

Apendix 1 *List of considered journals for the empirical analysis of opinions on fair value within trade literature*

Journal	Periodicity
ABACUS-A JOURNAL OF ACCOUNTING FINANCE AND BUSINESS STUDIES[v] (*ABACUS*)	Tri-annual
ACCOUNTING AND BUSINESS RESEARCH (*ABR*)	Quarterly
ACCOUNTING AND FINANCE (*AF*)	Quarterly
ACCOUNTING HORIZONS (*AH*)	Quarterly
ACCOUNTING ORGANIZATIONS AND SOCIETY (*AOS*)	Bimonthly
ACCOUNTING REVIEW (*AR*)	Quarterly
AUSTRALIAN ACCOUNTING REVIEW (*AAR*)	Tri-annual
CONTEMPORARY ACCOUNTING RESEARCH (*CAR*)	Quarterly
EUROPEAN ACCOUNTING REVIEW (*EAR*)	Quarterly
JOURNAL OF ACCOUNTING & ECONOMICS (*JAE*)	Bimonthly
JOURNAL OF ACCOUNTING AND PUBLIC POLICY (*JAPL*)	Quarterly
JOURNAL OF ACCOUNTING RESEARCH (*JAR*)	Bimonthly
JOURNAL OF BUSINESS FINANCE & ACCOUNTING (*JBFA*)	Bimonthly
MANAGEMENT ACCOUNTING RESEARCH (*MAR*)	Quarterly
REVIEW OF ACCOUNTING STUDIES (*RAS*)	Quarterly
REVISTA ESPANOLA DE FINANCIACION Y CONTABILIDAD-SPANISH JOURNAL OF FINANCEAND ACCOUNTING (*REFC*)	Quarterly

REFERENCES

Aboody, D. (2006) "Discussion of 'Which approach to accounting for employee stock options best reflects market pricing?'", *Review of Accounting Studies*, no. 11: 247–251

Barlev, B. & Haddad, J.R. (2004) "Dual Accounting and the Enron Control Crisis", *Journal of Accounting Auditing and Finance*, vol. 19, no. 3 (New Series): 343-359

Barth, M.E. (1991) "Relative Measurement Errors Among Alternative Pension Asset and Liability Measures", *The Accounting Review*, vol. 66: 433–63

Barth, M. E. & Landsman, W. R. (1995) "Fundamental issues related to using fair value accounting for financial reporting", *Accounting Horizons*, vol. 9: 97–107

Barth, M.E., Hodder, L.D. & Stubben, S.R. (2008) "Fair Value Accounting for Liabilities and Own Credit Risk", *The Accounting Review,* vol. 83, no. 3: 629–664

Beatty, W. & Weber, J. (2006) "Accounting Discretion in Fair Value Estimates: An Examination of SFAS 142 Goodwill Impairments", *Journal of Accounting Research*, vol.44, no.2: 257-288

Bens, D.A. (2006) "Discussion of Accounting Discretion in Fair Value Estimates: An Examination of SFAS 142 Goodwill Impairments", *Journal of Accounting Research*, vol.44, no.2: 289-296

Benston, G.J. (2006) "Fair-value accounting: A cautionary tale from Enron", *Journal of Accounting and Public Policy*, no. 25: 465–484

Benston, G.J. (2008) "The shortcomings of fair-value accounting described in SFAS 157", *Journal of Accounting and Public Policy*, no. 27: 101–114

Beeler, J., Evans, A. & Turner, K. (2009) "How Fair is Fair Value", *Proceedings of American Society of Business and Behavioral Sciences*, vol.16, no.1

Botosan, C.A., Beatty, A.L., Hopkins, P.E., Nelson, K.K. & Venkatachalam, M. (2005) Response to the FASB's Exposure Draft on Fair Value Measurements, *Accounting Horizons*, vol. 19, no.3: 187-196

Bradbury, M. & Prangnell, H. (2005) "(Net) Fair Value Accounting for Forward Contracts", *Australian Accounting Review*, vol.15, no.37: 84-89

Bradbury, M. (2008) "Discussion of Whittington", *Abacus*, vol.44, no.2: 169-180

Broadley, P. (2007) "Discussion of 'Financial reporting quality: is fair value a plus or a minus?'", *Accounting and Business Research Special Issue: International Accounting Policy Forum*, p. 45-48

Cairns, D. (2005) "Financial Reporting International briefing", *Accountancy Magazine*, July: 84

Chasteen, L.G. & Ransom, C.R. (2007) "Including Credit Standing in Measuring the Fair Value of Liabilities—Let's Pass This One to the Shareholders", *Accounting Horizons*, vol. 21, no. 2: 119–135

Danbolt, J. & Rees, W. (2008) "An Experiment in Fair Value Accounting: UK Investment Vehicles", *European Accounting Review*, vol. 17, no. 2: 271–303

Deans, S. (2007) "Discussion of 'Is fair value accounting information relevant and reliable? Evidence from capital market research'", *Accounting and Business Research Special Issue: International Accounting Policy Forum*, p. 31-32

Deventer, D.R. (2008) "Fair-Value Accounting, CDOs and the Credit Crisis of 2007-2008", *Bank Accounting & Finance*, October-November: 3-8

ESCB Banking Supervision Committee (2006) *Assessment of accounting standards from a financial stability perspective*, European Central Bank, December 2006

FASB (2004) *Proposed Statement of Accounting Standards – Fair Value Measurements*, Exposure Draft

FASB (2006) *Objective of Financial Reporting and Qualitative Characteristics of Decision—Useful Financial Reporting Information,* Preliminary Views

Fishman, J.E., Pratt, S.P. & Morisson, W.J. (2007) *Standards of Value Theory and Aplications,* John Wiley & Sons, New Jersey

Gigler, F., Kanodia, C. & Venugopalan, R. (2007) "Assessing the Information Content of Mark-to-Market Accounting with Mixed Attributes: The Case of Cash Flow Hedges", *Journal of Accounting Research*, vol. 45, no. 2: 257–276

Hann, R.N., Heflin, F. & Subramanayam, K.R. (2007) "Fair-value pension accounting", *Journal of Accounting and Economics*, no. 44: 328–358

Hemmer, T. (2008) "Discussion of Marking-to-Market: Panacea or Pandora's Box?", *Journal of Accounting Research*, vol. 46, no. 2: 461-466

Hilton, A.S. & O'Brien, P.C. (2009) "Inco Ltd.: Market Value, Fair Value, and Management Discretion", *Jornal of Accounting Research*, vol. 47, no. 1: 179-211

Hitz, J.M. (2007) "The Decision Usefulness of Fair Value Accounting – A Theoretical Perspective", *European Accounting Review*, vol. 16, no. 2: 323–362

Hodder, L., Mayew, W., McAnally, M.L. & Weaver, C.D. (2007) "Employee Stock Option Fair-Value Estimates: Do Managerial Discretion and Incentives Explain Accuracy?", *Contemporary Accounting Research*, vol. 23, no. 4: 933–75

Hughes, J. & Tett, G. (2008) "An unforgiving eye: bankers cry foul over fair value accounting", *Financial Times*, 14 March 2008

Ikaheimo, S., Kuosa, N. & Puttonen, V. (2006) "'The True and Fair View' of Executive Stock Option Valuation", *European Accounting Review*, vol. 15, no. 3: 351–366

Kimbrough, M.D. (2007) "The Influences of Financial Statement Recognition and Analyst Coverage on the Market's Valuation of R&D Capital", *The Accounting Review,* vol. 82, no. 5: 1195–1225

Kosmala, K. (2005) "True and Fair View or rzetelny i jasny obraz1? A Survey of Polish Practitioners", *European Accounting Review*, vol. 14, no. 3: 579–602

Landsman, W. (1986) "An empirical investigation of pension fund property rights", *The Accounting Review*, vol. 61: 662–691

Landsman, W.R. (2006) "Fair value accounting for financial instruments: some implications for bank regulations", BIS Working papers, No. 209, Monetary and Economic Department

Landsman, W.R., Peasnell, K.V., Pope, P.F. &Yeh, S. (2006) "Which approach to accounting for employee stock options best reflects market pricing?", *Review of Accounting Studies*, no. 11: 203–245

Landsman, W.R. (2007) "Is fair value accounting information relevant and reliable? Evidence from capital market research", *Accounting and Business Research Special Issue: International Accounting Policy Forum*, p. 19-30

Martin, R.D., Rich, J.S. & Wilks, T.J. (2006) "Auditing Fair Value Measurements: A Synthesis of Relevant Research", *Accounting Horizons*, vol. 20, no. 3: 287–303

Matis, D. & Bonaci, C. G. (2008) "Fair Value Accounting for Financial Instruments – Conceptual Approach and Implications", *Timisoara Journal of Economics*: 191-206

McCreevy, C. (2008) *Testimony before the Economic and Monetary Affairs Committee of the European Parliament*, 1 April 2008

Miller, P.B.W. & Bahnson, P. R. (2007) "FASB 157 upgrades the quality of financial reporting", *Journal of Accountancy*, November: 30-36

Paun, C. (2008) "Reglementarea sistemelor financiare aflate în criză", available at http://cristianpaun.finantare.ro/2008/12/24/reglementarea-sistemelor-financiare-aflate-in-criza/, accessed 25.01.2009

Penman, S.H. (2007) "Financial reporting quality: is fair value a plus or a minus?", *Accounting and Business Research Special Issue: International Accounting Policy Forum*, p. 33-44

Plantin, G., Sapra, H. & Shin, H.S. (2008) "Marking-to-Market: Panacea or Pandora's Box?", *Journal of Accounting Research*, vol. 46, no. 2: 435-460

Popa, A. (2008) "Criza financiară face ravagii în Statele Unite şi Europa", available at http://www.conso.ro/citeste-comentariu/24/info/Criza-financiara-face-ravagii-in-Statele-Unite-si-Europa.html, accessed 25.01.2009

Ratcliffe, T.A. (2007) "The Finer Points of Fair Value FASB 159 opens up options", *Journal of Accountancy*, December: 30-36

Reis, R.F. & Stocken, P.C. (2007) "Strategic Consequences of Historical Cost and Fair Value Measurements", *Contemporary Accounting Research*, vol. 24, no. 2: 557–593

Reis, R.F., Stocken, P.C., Hughes, J. & Williams, M., (2008) "Strategic Consequences of Historical Cost and Fair Value Measurements", *Contemporary Accounting Research*, vol. 24, no. 2: 557–584

Ronnen, J. (2008) "To Fair Value or Not to Fair Value: A Broader Perspective", *Abacus*, vol. 44, no. 2: 181-208

Ryan, S.G. (2008) "Accounting in and for the Subprime Crisis", *The Accounting Review,* vol. 83, no. 6: 1605-1638

Shin, H. (2007) "Discussion of Assessing the Information Content of Mark-to-Market Accounting with Mixed Attributes: The Case of Cash Flow Hedges and Market Transparency and the Accounting Regime", *Journal of Accounting Research*, vol. 45, no. 2: 277–287

Smieliauskas, W., Craig, R. & Amernic, J. (2008) "A Proposal to Replace 'True and Fair View' With 'Acceptable Risk of Material Misstatement'", *Abacus*, vol. 44, no. 3: 225-250

Sunder, S. (2008) "Econometrics of Fair Values", *Accounting Horizons*, vol. 22, no. 1: 111–125

Tan, C., Hancock, P., Taplin, R. & Tower, G. (2005) "Fair Value Accounting for All Financial Instruments", *Australian Accounting Review*, vol. 15, no. 36: 79-88

Tarus, D. (2008) "Criza creditelor ipotecare din SUA – pe înţelesul tuturor", *Ziarul de Imobiliare*, available at http://stiri.zdi.ro/articole_stire.php?id=3865, accessed 25.01.2009

Trowell, J. (2007) "A Comment on Establishing the Fair Value of Consideration Given in a Acquisition", *Australian Accounting Review*, vol. 17, no. 41: 92-96

Turley, S. (2008) "Discussion of Ronnen", *Abacus*, vol. 44, no. 2: 209-216

Tweedie, D. (2008) "Simple solution clearly needed in a complex world", *Financial Times*, 20 March

Veron, N. (2008) "Fair Value Accounting is the Wrong Scapegoat for this Crisis", *Accounting in Europe*, Vol. 5, No. 2: 63–69

Wallace, M. (2008) "Is Fair-Value Accounting Responsible for the Financial Crisis?", *Bank Accounting & Finance*, December 2008 – January 2009, p. 9-18

Walton, P. (2006) "Fair value and executory contracts: moving the boundaries in international financial reporting", *Accounting and Business Research*, vol. 36, no. 4: 337-343

Whittington, G. (2008) "Fair Value and the IASB/FASB Conceptual Framework Project: An Alternative View", *Abacus,* vol. 44, no. 2: 139-168

Wolosky, H. (2007) "Clarity, Transparency, and Ease of Comparability", *Practical Accountant*, p. 6

FASB Statements of Financial Accounting Standards

SFAS 107 *Disclosures about Fair Value of Financial Instruments* (FASB, 1991)

SFAS 115 *Accounting for certain investments in debt and equity securities* (FASB, 1993)

SFAS 119 *Disclosure about derivative financial instruments and fair value of financial instruments* (FASB, 1994)
SFAS 123 (revised) *Share-based payments* (FASB, 2004)
SFAS 133 *Accounting for Derivative Instruments and Hedging Activities* (FASB, 1998)
SFAS 157 Fair Value Measurements (FASB, 2006)
SFAS 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (FASB, 2007)

[i] 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".

[ii] *ABACUS* promotes a pattern of reproducing papers from dedicated *ABACUS*-sponsored forums.

[iii] SAFS 157 emitted in September 2006, as well as SFAS 159 emitted in February 2007 imposed an effective application from 15 November 2007, the date of the new financial exercise, permitting the early application from the beginning of 2007.

[iv] Sub-prime represents the market segment dedicated to consumers (natural and juridical persons) with a high degree of risk. Sub-prime creditors offer loans with interests over the medium level of the banking market to difficult clients, which have an unfavourable history of payments, present a financial situation that does not recommend taking the credit it solicits in present, or presents a high degree of risk regarding the repayment of the loan.

[v] It became an ISI Journal since 2006, and therefore we have only considered for the analysis issues starting with this period