

# A Convenient Scapegoat: Fair Value Accounting by Commercial Banks during the Financial Crisis

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## ABSTRACT

Critics argue that fair value provisions in U.S. accounting rules exacerbated the recent financial crisis by depleting banks' regulatory capital, which curtailed lending and triggered asset sales, leading to further economic turmoil. Defenders counter-argue that the fair value provisions were insufficient to lead to the pro-cyclical effects alleged by the critics. Our evidence indicates that these provisions did not affect the commercial banking industry in the ways commonly alleged by critics. First, we show that fair value accounting losses had minimal effect on regulatory capital. Then, we examine sales of securities during the crisis, finding mixed evidence that banks sold securities in response to capital-depleting charges. However, the sales that potentially resulted from the charges appear to be economically insignificant, as there was no industry- or firm-level increase in sales of securities during the crisis.

**JEL Classifications:** *M41; M42; M44.*

**Data Availability:** *Data are available from sources identified in the article.*

**Keywords:** [regulatory capital](#), [standard setting](#), [other-than-temporary impairments](#), [fair value accounting](#), [mark-to-market](#), [pro-cyclical](#), [contagion](#), [credit crisis](#), [asset sales](#)

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