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Did Fair-Value Accounting Contribute to the Financial Crisis?

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Abstract

The recent financial crisis has led to a major debate about fair-value accounting. Many critics have argued that fair-value accounting, often also called mark-to-market accounting, has significantly contributed to the financial crisis or, at least, exacerbated its severity. In this paper, we assess these arguments and examine the role of fair-value

accounting in the financial crisis using descriptive data and empirical evidence. Based

on our analysis, it is unlikely that fair-value accounting added to the severity of the

crisis. Our results provide support for claims that fair-value

accounting leads to excessive write-downs of banks' assets. If anything, empirical

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evidence to date points in the opposite direction, that is, toward the overvaluation of bank assets during the crisis.

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