



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 2008 financial crisis in a major way. While there may have been downward spirals or asset-fire sales in certain markets, we find little evidence that these effects are the result of fair-value accounting. We also find little support for claims that fair-value accounting leads to excessive write-downs of banks' assets. If anything, empirical evidence to date points in the opposite direction, that is, toward the overvaluation of bank assets during the crisis.

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G28 Financial Institutions and Services: Government Policy and Regulation

M41 Accounting

M48 Accounting and Auditing: Government Policy and Regulation

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