







Q

Home ► All Journals ► Economics, Finance & Business ► Accounting in Europe ► List of Issues ► Volume 5, Issue 2 ► Fair Value Accounting is the Wrong Scape ....

Accounting in Europe >

Volume 5, 2008 - Issue 2

4,764 49

Views | CrossRef citations to date | Altmetric

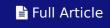
**Original Articles** 

# Fair Value Accounting is the Wrong Scapegoat for this Crisis

Nicolas Véron

Pages 63-69 | Published online: 19 Nov 2008

Sample our
Economics, Finance,
Business & Industry Journals
>> Sign in here to start your access
to the latest two volumes for 14 days



Figures & data

References

**66** Citations

Metrics

➡ Reprints & Permissions

Read this article

Share

Accounting in Europe Vol. 5, No. 2, 63-69, 2008

# Fair Value Accounting is the Wrong Scapegoat for this Crisis

NICOLAS VÉRON

Bruegel, Brussels, Belgium

The ongoing financial crisis has spurred much finger-pointing at fair value accounting for financial instruments, as set out in both leading sets of accounting standards used by listed companies around the world, namely the US Generally Accepted Accounting Principles (US GAAP) and the International Financial Reporting Standards (IFRS). Prominent financial leaders such as Martin Sullivan, former CEO of AIG, and Henri de Castries, CEO of AXA, have singled out fair value and the related wide use of mark-to-market accounting as a major factor in the crisis (see Hughes and Tett, 2008). Echoing these views, European Commissioner Charlie McCreevy expressed his concern on 1 April this year about the 'impact of mark to market valuation when markets generally become illiquid and irrational' (McCreevy, 2008).

On closer inspection, there is not just one criticism of fair value accounting, but two, centring respectively on illiquidity and procyclicality. The illiquidity criticism focuses on complex products resulting from securitisation of assets such as mortgage loans, which are at the core of the current financial crisis. Both IFRS and US GAAP define the fair value of financial instruments under a three-level framework: it is set as the observable market price of the instrument, or (absent the former) the observable market price of a similar item, or (if none of the previous two can be found) the result of a financial valuation model. The illiquidity criticism notes that market conditions of many complex financial instruments since August 2007 are marked by an imbalance between supply and demand, which means that market prices are rendered abnormal by the evaporation of liquidity and may bear no relation to underlying value defined as the potential to generate future cash flows. Indications of price for instruments that

Correspondence Address: Nicolas Véron, Bruegel, Rue de la Charité 33, B-1210 Brussels, Belgium. Email: n.veron@bruegel.org

1744-9480 Print/1744-9499 Online/08/020063-7 © 2008 European Accounting Association DOI: 10.1080/17449480802510542 Published by Routledge Journals, Taylor & Francis Ltd on behalf of the EAA

## Acknowledgement

An initial version of this text was prepared in French for publication in a special joint issue of Revue d'Economie Financière and Risques, June 2008.

#### Notes

These features are themselves not always mutually reinforcing, and the respective priorities assigned to them in accounting standards depend on the political economy in which standard-setting takes place. For a more in-depth analysis, see Véron et al. (2006).

Goldman Sachs, for example, had \$96.4 billion of assets marked to model ('level 3 assets' in US GAAP jargon) on its balance sheet as of end-February 2008 (Onaran, 2008).

EFRAG is a private organisation consulted by the European Commission before taking its decisions on the adoption of the IFRS accounting standards.

The chairmen of EFRAG and of its Technical Expert Group publicly distanced themselves from the three experts' proposal (Tidström and Enevoldsen, <u>2008</u>).

A proposal to create a European chief accountant is developed in Nicolas Véron (2007).

# Log in via your institution

Access through your institution

Log in to Taylor & Francis Online

Log in

## Restore content access

> Restore content access for purchases made as guest

Purchase options \*

Save for later

#### PDF download + Online access

- 48 hours access to article PDF & online version
- Article PDF can be downloaded
- Article PDF can be printed

EUR 48.00



#### Issue Purchase

- 30 days online access to complete issue
- Article PDFs can be downloaded
- · Article PDFs can be printed

EUR 178.00



\* Local tax will be added as applicable

#### Related Research 1



People also read

Recommended articles

Cited by 49

Information for

**Authors** 

**R&D** professionals

**Editors** 

Librarians

**Societies** 

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

**Open Select** 

**Dove Medical Press** 

F1000Research

Help and information

Help and contact

Newsroom

All journals

**Books** 

#### Keep up to date

Register to receive personalised research and resources by email



Sign me up











Accessibility



Copyright © 2025 Informa UK Limited Privacy policy Cookies Terms & conditions



Registered in England & Wales No. 01072954 5 Howick Place | London | SW1P 1WG