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► **To cite this version:**

Jean-François Casta. Does fair value accounting provide a better representation of a company?.  
Revue d'économie financière, 2004, Special Issue "Fair Value" (Special Issue "Fair Value"), pp.11-24.  
halshs-00170461

**HAL Id: halshs-00170461**

**<https://shs.hal.science/halshs-00170461v1>**

Submitted on 15 Mar 2012

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**DOES FAIR VALUE ACCOUNTING  
PROVIDE A BETTER REPRESENTATION OF A COMPANY?**

Jean-François CASTA\*

For a number of decades now, at the instigation of Anglo-Saxon standard setters, the basis of the traditional accounting model, or the financial conventions which determine how a company's wealth and income is measured, have been increasingly called into question. This wide-reaching movement, initiated in the United States by the Financial Accounting Standards Board (FASB), and internationally by the International Accounting Standards Committee (IASC), aims to replace historical cost - the current basis for the measurement of a company's income statement and valuation of its assets and liabilities - with the notion of fair value. Fair value is defined by the IASC<sup>1</sup> as "the amount for which an asset can be exchanged or a liability assumed between two willing and informed parties as part of a transaction with conflicting interests". The concept of fair value is broader and can be applied more generally than that of market value<sup>2</sup>: indeed, where there is no quoted market price available on an active market, the valuation is determined by the exchange value agreed by two independent parties, by the market price of an item with similar characteristics or by the net present value estimate of future cash flows. Fair value can potentially be used for a large number of non-financial assets and liabilities and can therefore serve as the basis for a new corporate accounting model which aims to provide a more accurate reflection of the uncertainties affecting future cash flow estimates and investment opportunities in financial reports.

This article looks at the usefulness of measuring a company's wealth and net income using the fair value method. In this regard, the key question – is fair value relevant? – can be analysed as follows: do fair value "accounting numbers" provide a better estimate of the value of a company and the risk relating to its activity? How informative are they for users? How useful is fair value information for decision-making?

In order to answer these questions, we shall first examine the basis and limitations of the traditional accounting model. We will then analyse the determining factors in the emergence of the fair value method, with particular regard to the role attributed to financial statements and the needs of their users. Lastly, we will present a summary of the empirical studies carried out to assess the usefulness of fair value accounting information.

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<sup>1</sup> IAS Standard 32 (1995), *Financial instruments: Information required and presentation*. SFAS Standard 107 (1991), *Disclosures about Fair Value of Financial Instruments*, provides the following definition: "the fair value is the amount at which an asset (or liability) could be bought (or incurred) or sold (or settled) in a current transaction between willing parties, that is, other than in a forced or liquidation sale".

<sup>2</sup> The market value is the "price that the seller can get (or that the purchaser will accept to pay) ... on an active market".

## *TRADITIONAL ACCOUNTING MODEL: BASIS, LIMITATIONS AND ALTERNATIVES*

### *Corporate accounting presentation: a structure based on a certain notion of value*

The accounting presentation of a company is a contingent structure based on generally accepted principles in a given historical and economic context, which together form a model. The legitimacy of this model is based on its capacity to apprehend, evaluate, summarise and monitor over time information relating to transactions that have an impact on the company's wealth. Ideally, this model should enable the definition of a system of measurement for company net income and shareholders' equity that is socially acceptable and also meets the requirements of the users of financial statements.

The standard corporate accounting model is based on an underlying concept of value<sup>3</sup> which, as in economic science, can refer to cost, exchange value or usefulness. The approach selected will determine the structure of the accounting presentation and the criteria used to measure a company's net income and wealth.

As shown by Richard (2001), "while valuation at cost price seemed to take precedence in the earlier European regulations, from 1673 to around 1800, realizable value was recommended by jurists and became widely used in accounting regulations in Germany and France during the nineteenth century and even beyond". The current debate surrounding fair value therefore echoes the debate that took place in France and Germany up until the Second World War, between advocates of dynamic accounting (referring to cost) and supporters of static accounting (referring to realizable value in the context of going concern). However, in the United States, banks started to drop references to market price (in favour of historical cost) in 1938, following the Great Depression (Swenson and Buttross, 1993). After the Second World War, the historical cost model gained precedence both in Europe and the United States.

### *The dominant accounting model: value as a reference to cost*

Today's dominant accounting model is based primarily on the concept of cost value (i.e. previously accumulated costs), associated with the realisation principle and, depending on national practices, with the prudence principle. Variants of this model differ in the extent to which they recognise the principle of placing (economic) reality over (legal) appearance.

Generally speaking, this model functions like an asymmetrical filter favouring the recognition of potential losses and carrying over gains from the effective completion of a transaction. It is based on a prudent and non-volatile measurement of net income and wealth: this has been the object of much criticism, particularly with regard to the actual relevance of

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<sup>3</sup> For a study of the different notions of value underlying the different accounting models, see Simon (2000).

the accounting information reported<sup>4</sup>. Conversely, its supporters<sup>5</sup> attribute a number of qualities to this method, which they feel justify its continuing use and prevalence. For example, Ijiri (1971, 1975) holds the view that historical cost is more objective and reliable than alternative methods which are supposedly more relevant, and it is therefore a more effective means of resolving conflicts of interest. In fact, except in periods of inflation, it is a particularly robust model that is highly appreciated by the business world. The FASB (1984) and IASC (1989) conceptual frameworks present it as the most frequently used valuation basis.

*Historical cost accounting: what information do “accounting numbers” provide?*

The first empirical studies to assess the usefulness of accounting data for the decision-making process were carried out by Ball and Brown (1968) and Beaver (1968), then taken up by various other researchers in the 1970s and 1980s. This work drew on efficient markets theory and event study methodology, with the aim of highlighting the market’s reaction to published accounting information (annual or interim financial statements) in the form of abnormal returns. All of these empirical studies found that the only information content taken into account by the markets is net income. Paradoxically, this work highlighted the extent to which markets anticipate the informational content of accounting data well in advance of its publication in financial statements. The results of these studies thus undermined the assumed usefulness of “accounting numbers” and their relevance in decision-making, leading researchers to suggest they have more of a contractual utility (Watts et Zimmerman, 1986), and to give precedence to the disciplinary role of accounting, i.e. the rendering of accounts.

*Alternative valuation methods: a lot of proposals but no obvious practical benefits*

Researchers put forward a number of alternative valuation conventions in order to restore some relevance and utility to the traditional accounting model. These accounting models can first be classified on the basis of two types of independent criteria (Boussard, 1997), the first relating to the choice of method for the valuation of assets (historical cost *versus* concept of “value”), the second relating to the unit of monetary measurement (nominal value *versus* purchasing power). Where there is no inflation, this typology can be further refined by combining the “valuation method” criterion with respect (or relaxation) of the realisation principle, thus highlighting the essential dichotomy in the way results are established (transaction result *versus* holding result).

The principal models put forward in accounting literature can be separated into three categories, according to the notion of value used as a reference:

- The “current entry values” model, based on the entry value which refers either to the acquisition price or the replacement cost. This model was advocated by Edwards and Bell (1961) in relation to the maintenance of physical capital.

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<sup>4</sup> With regard to company valuations, for example, Ohlson (1990) stresses the quasi-systematic bias introduced by the use of *accounting numbers* based on historical cost.

<sup>5</sup> For example, Littleton (1952), Kohler (1963), Ijiri (1971) and, in the context of the current debate surrounding fair value, Thouvenin (1998).

- The “current exit values” model, based on the exit value, which is the price at which an asset can be sold or liquidated. This was put forward by Chambers (1966) and by Sterling (1970).
- The “value-in-use” model, based on the added-value of the asset to the company, and measured by the present value estimate of future cash flows<sup>6</sup>.

In 1984, when it adopted its current conceptual framework, the FASB recognized the following as a basis for valuation<sup>7</sup>: (1) historical cost, (2) current value or replacement value, (3) market value and net market value (excluding any case of forced liquidation) and (4) present value estimates of future cash flows. Method (2) complies with the transaction principle, while models (3) and (4) do not apply this principle strictly.

### *The brief introduction of replacement cost<sup>8</sup>*

The period 1973 to 1983, which saw double-digit inflation in western economies, was marked by the desire of Anglo-Saxon standard setters – particularly the Accounting Standards Committee (ASC) in the United Kingdom – to reduce distortions in the accounting measurement of net income and shareholders’ equity caused by the continuing rise in prices. In contrast to the supporters of the principle of maintenance of financial capital who advocated the use of the historical cost model adjusted for the loss in purchasing power, in 1975 the Sandilands report recommended inflation accounting based on the maintenance of physical capital, using replacement cost or, more precisely, the deprival value<sup>9</sup>, as a reference. This concept had a significant impact on SFAS standard 33 (1979) in the United States and in particular on SSAP standard 16 (1980) entitled *Current Cost Accounting* in the United Kingdom. While SFAS standard 33 recommended that information relating to current value be disclosed in the notes to financial statements, SSAP standard 16 attacked the very basis of the historical cost model by obliging all major companies to use current value accounting for both net income and balance sheet items, although it accepted a number of different reporting methods. Published in 1980, this standard was highly disputed by companies, users and auditors alike. It became optional in 1985 and was withdrawn in 1988. Yet, as show by Walton (2001) and Boussard (1997), the brief introduction of replacement cost had an impact on all accounting standards, both in Anglo-Saxon countries and in France.

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<sup>6</sup> Difficulties relating to its implementation meant that the authors often considered this method impractical.

<sup>7</sup> In 1989, the IASC conceptual framework recognized the following valuation bases: historical cost, current cost (or replacement value), realizable value and present value.

<sup>8</sup> For a summary on the introduction of replacement cost, see Walton (2001).

<sup>9</sup> The deprival value is an example of the practical implementation of the “value to the owner” concept described by Bonbright (1937), in a model combining exit value, entry value and economic value. In fact, depending on the intentions of producers of financial statements, the deprival value - which measures the opportunity cost that the owner would bear if deprived of the asset – refers either to the replacement cost (if the fixed asset is useful and profitable and there is a desire to maintain the physical capital) or, conversely, to the estimated future cash flows associated with the actual fixed asset, that is at least the disposal value and flows arising from operation of the asset (Walton, 2001).

However, none of the various empirical studies<sup>10</sup> carried out on the subject could establish whether or not the information produced using replacement cost was significantly more useful for the markets. This, combined with the standard setters' failure to properly identify the needs of users, the additional cost to companies for the production of current value information, given its subjective nature and the fact that it can be easily disputed, and significant opposition from auditors, all meant that these standards were rapidly dropped when inflation slowed down.

As underlined by Walton (2001), the “standard setter believed that inflation was merely a technical problem and failed to realise that a major change in the accounting valuation system also had socio-political implications”. The failure of this attempt to review the dominant accounting model underlines the difficulties of the current debate regarding the relevance of fair value.

### *THE EMERGENCE OF THE CONCEPT OF FAIR VALUE: THE ISSUES AT STAKE AND DETERMINING FACTORS*

The emergence of fair value as a central accounting convention is a radical turnaround and can be explained by the appearance of a number of converging ideas and shared beliefs.

The first determining factor in this change was the attitude adopted in the new Anglo-Saxon conceptual frameworks – that of the FASB (1984) and then the IASC (1989) – with regard to issues such as the purpose of accounting (assistance with decision-making versus rendering of accounts and controls), the various meanings assigned to the notion of “users” of financial statements (the investor in the generic sense versus many types of users) and, implicitly, certain qualities expected from financial and accounting information<sup>11</sup> (relevance versus accuracy). The objectives attributed to financial statements were clearly biased towards meeting the needs of users – mainly creditors and investors – in terms of forecast data, placing particular emphasis on the usefulness of accounting information for external parties in their economic decision-making.

The second determining factor is the growing use of increasingly complex financial instruments and the high level of market volatility. The widespread use of these instruments has increased levels of risk and aptly highlights the issue of the relevance of accounting information and notably the recognition of financial instruments in financial statements. Derivative products demonstrate this problem particularly well as they initially mobilise modest amounts of capital but generate a significant risk at a later stage. The financial institution bankruptcies seen in the United States at the end of the 1980s underlined the limitations of the standard accounting model: the historical cost model was unable to provide a timely indicator to the users of financial information of the financial health of banks using derivatives (Barth, Landsman and Wahlen, 1995). For some, the need to prevent systemic

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<sup>10</sup> See, for example, (Beaver, Griffin and Landsman, 1983), (McDonald and Morris, 1984).

<sup>11</sup> The conceptual framework of the FASB identifies the essential qualities of accounting information. *Relevance* is an attribute that enables users of financial statements to make decisions, to confirm or correct previous forecasts and to evaluate the results of past, present or future events. *Accuracy* is a characteristic that means the accounting information can be used with confidence as it is neither partial nor incorrect.

crises in the financial sector and to increase the relevance of financial information were behind the emergence of a range of proposals for a fair value method (Cornett *et al.*, 1996).

The last determining factor is the desire, of the Securities and Exchange Commission (SEC) in particular, to reduce the discretionary powers of directors in the presentation of accounting results. The historical cost model gave directors some considerable leeway both to make provisions, and hence integrate uncertainty, and to establish ad hoc results. As provisions are based on a subjective assessment of risk, cost forecasts and non-definitive amortisation of assets, they can be used as a political accounting tool. Conversely, directors can take an opportunistic approach to the concept of transaction results and dispose of assets that conceal unrealised capital gains (while deferring the disposal of assets carrying potential capital losses) in order to generate income, delay the appearance of losses or smooth out results. Consequently, the use of fair value is presented, notably by the US market regulator, as a solution for a more reliable valuation of assets and shareholders' equity (Beatty *et al.*, 1996).

As a result of the dysfunctions caused by the irregular use of the historical cost model – which has not fulfilled its role as a safeguard – and in order to improve the relevance of information disclosed on certain financial instruments, the standards authorities implemented a programme to break away from the historical cost model – most often used according to the company's intended purpose for holding the assets – and to promote the notion of fair value. The FASB, supported by the SEC and part of the academic world<sup>12</sup> and, on an international level, by the IASC, was decisively involved in this process<sup>13</sup>. However, as noted by Garmilis (2001), “the adoption of standards based on fair value has always caused some conflict, between regulators and standards authorities on the one hand, and companies on the other”. In fact, since information requirements have always been badly defined and are often assumed, the promotion of the fair value model is motivated more by the large number of proposals put forward than by any explicit request on the part of users<sup>14</sup>.

### *THE FAIR VALUE ACCOUNTING MODEL: EVOLUTION OR REVOLUTION?*

Having briefly looked at the stages in the accounting standardisation process that led to the emergence of a fair value model, we will now review the qualities and disadvantages attributed to this model.

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<sup>12</sup> This is particularly the case with the *American Accounting Association* (AAA), see (Cornett *et al.*, 1996).

<sup>13</sup> Archer (1997) also underlines the preference of the *Accounting Standards Board* (ASB) for fair value valuation in a critique of the UK conceptual framework.

<sup>14</sup> In view of this, it is necessary to ask, for example: are financial analysts requesting a widespread use of fair value? Do they advocate financial reporting that favours the balance sheet over the income statement? The study conducted among financial analysts by Garmilis (2001) highlights only mild demand for fair value information.

## *The introduction of fair value into accounting standards*

Although the concept of fair value first came into use in the 1950s, it had a limited scope of application and very specific accepted meanings<sup>15</sup>. In fact, the term has only been used in its current form since the 1990s. Over this period, fair value began to be used for the disclosure (information on financial instruments in the notes to financial statements), and later for the accounting recognition – i.e. the booking of unrealised profits and losses under earnings – of certain financial instruments and derivatives. It is now becoming more widespread and is being used in a variety of fields, not only as a principle for initial valuation, but also for monitoring the value of assets and liabilities.

Developments in accounting standards in the United States illustrate the increasing popularity of the notion of “fair value”<sup>16</sup>, driven by both the SEC and the FASB, and linked to the growing use of financial instruments. In 1991, SFAS standard 107<sup>17</sup> referred to fair value as the valuation basis for disclosure. SFAS 119<sup>18</sup> (1994) similarly referred to fair value as the basis for the disclosure of information on derivatives. With SFAS 115<sup>19</sup>, which institutionalised accounting on the basis of the intent of the management in 1993, the notion of fair value became the reference method for reporting certain securities (investment and transaction securities) in the balance sheet and earnings were measured according to the variation in the fair value of these securities. Since then, this valuation convention, which takes account of unrealised gains and losses, has underpinned the FASB’s strategy to eliminate or limit the effects of discretionary choices in accounting based on intent. Adopted in 1998, despite considerable opposition from banks, SFAS 133<sup>20</sup> made fair value accounting of derivative financial instruments – assets and liabilities – in the balance sheet mandatory<sup>21</sup>, both on their initial entry into the accounts and subsequently. SFAS Standards 141 and 142 (2001) extend beyond the scope of financial instruments, stipulating that, in business combinations, all identifiable assets and liabilities should be reported at fair value, and these valuations monitored over time. Similarly, the replacement of the amortisation of certain intangible assets by impairment tests is also based on fair value monitoring.

International accounting standards also evolved during this period. IAS standard 32 (1995), relating to the disclosure of information on financial instruments, adopted fair value as a valuation basis. However, it was only after 1998, subsequent to a complete review of its standards, that the IASC introduced the notion of fair value into all of its standards, including those relating to business combinations, corporate commitments, intangible assets, securities portfolios, fixed asset revaluations, etc. Also in 1998, the IASC adopted IAS standard 39 which, like SFAS standard 133, stipulated the use of fair value for the accounting and

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<sup>15</sup> For the origins of the notion of fair value, see Simon (2000).

<sup>16</sup> For the emergence of the notion of Fair Value in US accounting standards, see (Cornett *et al.*, 1996).

<sup>17</sup> SFAS standard 107 (1991), *Disclosures about Fair Value of Financial Instruments*.

<sup>18</sup> SFAS standard 119 (1994), *Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments*.

<sup>19</sup> SFAS standard 115 (1993), *Accounting for Certain Investments in Debt and Equity Securities*.

<sup>20</sup> SFAS standard 133 (1998), *Accounting for Derivative Instruments and Hedging Activities*.

<sup>21</sup> A more radical proposal, designed to get rid of accounting based on the intention of the management and extend fair value accounting to all financial instruments. Although the FASB was in favour, banks were fervently opposed to it.



valuation of certain financial instruments, both on their initial entry into the accounts and thereafter. Highly criticized by credit establishments, the current version of this standard poses a number of problems with regard to its implementation. Moreover, the IASC has recently sought to promote the wider concept of “*full fair value*”, which would extend the use of fair value to all financial assets and liabilities, regardless of the purpose for which they are held. The declared objective is to improve the monitoring of risk exposure – through a periodical revision of market values or discounted present values — and to monitor the creation of value more effectively, regardless of the intentions of the parties. However, once again, strong opposition from the professional world seems to have put a stop to this project.

### *Qualities attributed to the fair value model*

A number of benefits have been cited to justify the use of fair value in the accounting of financial instruments<sup>22</sup>.

The fair value method is based on the discounting of future financial flows and thus provides information which integrates market trends. It is therefore perfectly in line with current methods used by investors to calculate their cash flow estimates.

Furthermore, the fair value method provides comparability of financial statements, by giving equivalent values for a financial instrument, regardless of the date on which it was acquired, thus eliminating opportunities for “cherry picking” arising from the improper application of the realisation principle. It also ensures that the measurement of performance is exhaustive: by integrating not only transaction gains and losses but also holding gains and losses, the fair value model provides an entirely faithful representation of the strategy adopted for financial instruments - disposal *versus* holding. Moreover, it guarantees that the value accounted for is exhaustive, particularly for derivatives where the initial cost is zero.

Ensuring that this approach is consistent with the approach used for operational risk management (interest rate, currency or price) would facilitate the reconciliation of accounting income with economic income. Moreover, the use of fair value would ensure that the information produced is neutral, as it is based on data which is exogenous (market values or, if no active market is involved, model values based on external parameters) and easily accessible (market values).

### *Criticisms of the fair value model*

Several criticisms<sup>23</sup> have been made against the use of fair value.

Many of these arguments refer to the increased volatility of fair value accounting measures<sup>24</sup> and the consequences thereof. However, in doing so, they in fact raise the more

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<sup>22</sup> The arguments in favour of fair value are set out in the discussion paper *Accounting for Financial Assets & Financial Liabilities*, March 1997, IASC. For the qualities and weaknesses of fair value, see also (Cornett *et al.*, 1996), (Bernheim and Escaffre, 1999).

<sup>23</sup> For a summary of these criticisms, see (Swenson and Buttross, 1993), (Cornett *et al.*, 1996), (Thouvenin, 1998), (Bernheim and Escaffre, 1999).

<sup>24</sup> A number of studies have been carried out on the effect of accounting standards on volatility. For a summary, see (Ballwieser and Kuhner, 1994).

fundamental issue of the actual function of accounting models and the relevance of filtering or, on the contrary, better reflecting the actual volatility of economic activity. Conversely, other criticisms underline the unjustified increase in the volatility of earnings and shareholders' equity as a result of an implicit abandonment of the going concern principle.

The most frequently cited criticism concerns assets not traded on an efficient market<sup>25</sup>, which are consequently valued on the basis of internal models. Detractors stress the lack of objectivity and neutrality in these valuations, and the loss of reliability and comparability due to the use of internal models<sup>26</sup>.

Other critics argue that the use of the fair value accounting model implies taking a short-term approach to the management of a company.

Lastly, certain detractors of this model stress the prohibitive cost of obtaining information, given the limited usefulness of fair value data for users.

### *FAIR VALUE AND USEFULNESS OF INFORMATION*

Despite the increasing popularity of this accounting model, the use of fair value as a general valuation principle poses a number of practical problems and raises major issues. Although the benefits attributed to fair value methods are generally the result of deductive reasoning, assumptions and even affirmations, the criticism often stems from fears rather than actual inadequacies that have been pinpointed in an empirical manner.

The introduction of the notion of a valuation objective in accounting raises the question of the legitimacy of accounting methods and highlights the need for a theoretical analysis framework. The latter generally refers to the efficiency of capital markets as a working theory<sup>27</sup>. The most widely used methodology involves examining the effect of an accounting choice – such as fair value - on the market value of a sample of companies, where the price is perceived as an aggregate measure of future cash flow estimates. The theory of informational usefulness associated with an accounting choice is valid if it is possible to establish a significant link between the accounting choice and the change in the price or Market to Book Ratio.

Because a certain amount of time is required before the application of standards can be assessed, the available empirical studies mainly concern the banking sector and, more often, the introduction of SFAS standards 107 or 115. However, it is already possible to draw certain conclusions in relation to our objectives from this work.

With regard to the information content of “accounting numbers” for the market, empirical studies are not generally able to show that the fair value model is significantly better

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<sup>25</sup> On the conceptual problems of *Fair value* with respect to the existence of active markets, see (Barth and Landsman, 1995).

<sup>26</sup> On the operational risks of these models, see (Blois, 2001).

<sup>27</sup> However, recent studies have questioned the validity of the theory of efficient capital markets, opening up other avenues of research.

than the historical cost model<sup>28</sup>. However, some of the work carried out appears to establish a link between fair value and the market price of a company. For example, in discussing the problem of valuing a securities portfolios, (Eccher *et al.*, 1996) establish that there is a strong correlation between the fair value of securities and the market value of a company. However, this result cannot be applied to all balance sheet items, such that the fair value of financial instruments, taken on its own, can only account for a small part of the variation in Market to Book Ratio.

With regard to the effect on the market of adopting different accounting regulations, (Cornett *et al.*, 1996) show that the events – that is, the different phases in the standardisation process – relating to the introduction of fair value have a negative impact on the value of banks.

Moreover, concerning the problem of volatility, if the earnings of banks are significantly more volatile using fair value than on the basis of historical cost, this amplification does not appear to have any significant effect on stock market returns (Barth, Landsman and Wahlen, 1995). In fact, behind this finding lies a fundamental question concerning the expected properties of the accounting model. Should it be founded on measurements that filter risk – that is, constructed to reduce systemic entropy — or, on the contrary, should it be as neutral as possible in order to pass on information on risks to the users of financial statements<sup>29</sup>?

Lastly, with respect to the usefulness of fair value information according to the method by which it is integrated into the accounting model – that is, whether it is used in accounting recognition or disclosure - (Beatty *et al.*, 1996) show, by studying the reaction of stock market prices to the adoption of SFAS standard 115, that the accounting of unrealised gains and losses is useful solely for regulatory bodies and not for other users.

Although these empirical studies are still only partial, the results obtained so far have rekindled the debate regarding the usefulness of accounting information based on fair value. As regards its usefulness for decision-making, one interpretation favours the contractual role of “accounting numbers”. As Jeanjean (2001) shows, the introduction of the fair value model underlines the highly “disciplinary” role of this method. In fact, as the completion of transactions is no longer determinant in the calculation of income, it is possible to control the activities of managers more effectively and eliminate the opportunistic management of holding gains. Moreover, this model would simultaneously introduce an accounting framework that centred management decisions on the creation of value, and a method of financial reporting that complies with current standards for performance measurement based on Shareholder Value.

## CONCLUSION

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<sup>28</sup> On work carried out on the banking sector, see (Barth, Beaver and Landsman, 1996), (Khurana and Kim, 2003) and (Nelson, 1996). With regard to non-financial companies, see (Simko, 1998).

<sup>29</sup> For a discussion of the different ways in which uncertainty is treated in accounting, see (Casta, 2000).

The problems surrounding the introduction of fair value into accounting models goes beyond the scope of financial instruments or even the banking sector. Indeed, through the standards relating to business combinations and the depreciation of intangible items, it potentially concerns all companies of a certain size. Moreover, this change in accounting concepts forms the very core of the reference framework implemented by the IASB for the establishment of future IFRS standards. The emergence of this new accounting model will require not only an adjustment of financial communication and analysis practices, but also a redefinition of the respective roles of the balance sheet and income statement.

In an effort to re-establish the relevance of accounting information, standard setters are identifying consistent links between “accounting numbers”, management indicators and company value. The debate which has arisen over the introduction of fair value has thus thrown a new light on the question of the purpose of financial statements and the usefulness of accounting information. The advantage of this is that it has extended the scope of discussions beyond the purely technical consideration of whether historical cost is a better valuation method than fair value, to look at the effects on the allocation of resources and the underlying economic issues (For whom and for which decisions should this information be produced?).

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