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I would like to use my few minutes to highlight the general inferences that I believe can be drawn from the academic literature on fair value accounting for financial instruments held by financial institutions.

Note that these inferences are based on findings from studies that examine averages, meaning that the studies address the average firm or average investor. Below each comment, I include the citations of the most prominent work in the area that I relied on in drawing my inferences.

First, and foremost, the research suggests that investors use fair values in making firm valuation decisions.

Barth, M. 1994. Fair Value Accounting: Evidence from Investment Securities and the Market Valuation of Banks. *The Accounting Review* Vol. 69, (January), pp. 1-25.

Barth, M., W. Beaver, and W. Landsman 1996. Value Relevance of Banks' Fair Value Disclosures under SFAS No. 107. *The Accounting Review* Vol. 71, (October), pp. 513-37.

Eccher, E., K. Ramesh, and S. Thiagarajan 1996. Fair Value Disclosures by Bank Holding Companies. *Journal of Accounting and Economics* Vol. 22, (August-December), pp. 79-117.

Carroll, T., T. Linsmeier, and K. Petroni. 2003. The Reliability of Fair Value versus Historical Cost Information: Evidence from Closed-End Mutual Funds, *Journal of Accounting, Auditing, and Finance* 18:1 pp. 1-23.

They also appear to consider the reliability of the fair value estimates. Investors respond more strongly to fair values of assets that are traded in deep liquid markets than to fair values of other assets such as level 2 and level 3 assets.

Petroni, K., and J. Wahlen. 1995, Fair Values of Equity and Debt Securities and Share Prices of Property-liability Insurance Companies. *Journal of Risk and Insurance* Vol. 62, (December), pp. 719-37.

Carroll, T., T. Linsmeier, and K. Petroni. 2003. The Reliability of Fair Value versus Historical Cost Information: Evidence from Closed-End Mutual Funds, *Journal of Accounting, Auditing, and Finance* 18:1 pp. 1-23.

Yes, managers will apply discretion in their fair value estimates but this behavior can be reduced by quality monitoring from such groups as the audit committee, auditors, and appraisers.

Dechow, P., L. Myers, and C. Shakespeare, 2008. Fair Value Accounting and gains from Asset Securitizations: A Convenient Earnings Management Tool with Compensation Side-Benefits. Working paper.

Deitrich, J.R., M.S. Harris, and K.A. Muller III. 2000. The Reliability of Investment Property Fair Value Estimates. *Journal of Accounting and Economics* 30: 125-158.

Muller III, K.A., and E.J. Riedl. 2002. External monitoring of property appraisal estimates and information asymmetry. *Journal of Accounting Research* 38 (June): 865-881.

A full fair value model would limit the opportunities for cherry picking which exist under a mixed attribute model.

Hunton, J., R. Libby, and C. Mazza. 2006. Financial reporting transparency and earnings management. *The Accounting Review* 81 (1): 135-157.

Lee, Y., K. Petroni, and M. Shen. 2006. Cherry picking, disclosure quality, and comprehensive income reporting choices: The case of property-liability insurers. *Contemporary Accounting Research* 23 (3): 655-692.

Under a mixed attribute model, managers apply discretion in determining which assets are reported at fair value and which are reported at historical cost.

Godwin, N., K. Petroni, and J. Wahlen. 1998. Fair value accounting for property-liability insurers and classification decisions under FAS 115. *Journal of Accounting, Auditing, & Finance* 13 (3): 207-239.

Under a full fair value model, income reflects elements of risk that are currently not captured by the performance measures reported under the mixed attribute model that we currently rely on.

Hodder, L., P. Hopkins, and J. Wahlen. 2006. Risk-Relevance of Fair-Value Income Measure for Commercial Banks. *The Accounting Review* 81(2): 337-375.

Disclosure of fair values is not equivalent to the recognition of fair values. Results suggest that even experienced bank analysts will not fully incorporate fair value information disclosed in footnotes when assessing bank risk.

Hirst, D., P. Hopkins, and J. Wahlen. 2004. Fair values, income measurement, and bank analysts' risk and valuation judgments. *The Accounting Review* 79 (2): 453-472.

Lastly, there is evidence that recognizing liabilities at fair value, which appears counter-intuitive to some, is actually representationally faithful.

Barth, M., L. Hodder, and S. Stubben. 2008. Fair Value Accounting for Liabilities and Own Credit Risk. *The Accounting Review* 83 (3): 629-664.