

I believe mark-to-market accounting or fair value accounting involves a lot of subjectivity and judgment.

It also is not a one size fits all.

One thing that can be said about historical cost accounting is that it is verifiable.

With so much subjectivity involved in fair value accounting and with the lack of public confidence in auditors that arose out of company failures, auditors are so scared that they may be placing too much pressure on management to value assets in a very conservative manner.

This can result in asset valuations that are conservative but not fairly stated.

This can also have implications for the time that auditors spend to obtain assurance that figures are fairly stated. This, in turn, results in higher audit costs, thereby unnecessarily burdening some already struggling companies.

In addition, auditors generally do not know the business as much as management does and so their suggestions can be overly theoretical and lacking in practicality.

Some thought should be given to the following somewhat radical ideas:

- Where extensive management estimates are involved, an auditor should be allowed to opine on management's process for determining fair value and not opine on the actual numbers. At the same time, management should be held responsible for providing fair disclosures.
- Require extensive disclosures from management on the reason they believe that their estimates are fairly stated.
- Require extensive sensitivity analysis so that investors that choose the scenario that they believe suit their needs.
- Where an inactive or in orderly market exists, allow management to continue disclosing assets at historical cost while disclosing the difficulty in determining fair value and providing disclosures to investors on the various prices at which certain assets have been exchanged.
- Simplify the rules over fair value accounting some of which are too complex for certain auditors, management and investors to understand.