

EXAMINE THE PAST FOR GOING FURTHER: A LITERATURE REVIEW IN THE FIELD OF FAIR VALUE

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The current study is part of the scientific approach being assumed at the beginning of the Ph.D. as the theme "New valence of evaluation in accounting" under the guidance of prof. univ. dr. Dumitru Matis. This article aims to realize a more comprehensive study of relevant literature in accounting with fair value as the main subject. We have built our study attempting to answer the following research questions: How much "fair value activity" has there been since 2008? What research topics are being addressed? Who is leading fair value research? What are the limitations of current research? To achieve our proposed objectives we analyzed two databases (Science Direct and Business Source Premier) during 2008-2011, analyzing in detail a total of 22 articles divided into five specific research directions: international regulations on fair value accounting, fair Value Accounting and Financial Crisis, financial reporting at fair value, the relevance of fair value and fair value versus historical cost.

With this research we try to see "what is known" in the field of fair value so far . In addition to qualitative analysis which we performed to discover the interest of researchers in this field, we conducted a quantitative analysis concerning the reported studies , being divided into research themes, research methodology and year of the article publication. Quantitative research results are those anticipated, that the most "fair value activity " took place in 2008 and 2009, surveys having as main research theme international regulations on fair value accounting.

Keywords: fair value, literature review, research direction, databases

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1. Introduction

Fair value accounting has become a crucial principle of measurement in international accounting, considered by the International Accounting Standard Board and the Financial Accounting Standard Board as the primary basis for assessing future (IASB:2006, FASB: 2008). The debate on fair value, are centered around the trade-off between relevance and reliability.

The ICAEW (2006) recently argued that 'Given the importance of the subject, it has not attracted the interest it deserves'. So we try to improve the literature on this topic by conducting a review of the current state of knowledge of the fair value. Consider to be important such research because it can be a source of ideas, hunches and to explore research question. That is, through finding exemplars of well-executed research, interesting ideas that are not particularly well executed, or gaps in the body of knowledge in a discipline, we can identify possibilities for future research. Literature reviews also help us to avoid "reinventing the wheel" by enabling them to build on what others have done. (Ted Zorn , Nittaya Campbell:). Through this research we try to see "what is known" in the field of fair value so far. In addition to qualitative analysis that we intend to achieve a breakthrough for research in this field, we perform a quantitative analysis of these studies.

2. Research methodology

To perform this synthesis and to achieve the objectives that we propose, we follow **eight steps** that we will describe in the following:

The **first step** we consider the need for proper identification of a specialized literature in this field. The best way to initiate the descriptive analysis of the specialized literature, making reference to what is generating the development of a given research area, in fact the existing application to achieve fair value of research on the industry. (Bonaci C., 2009:39). We consider the large number of articles published in international journals regarding this domain a testament to that claim.

The **second step** of this research, we have formulated specific questions for this approach. So we built the following article following four research article questions: RQ1. How much “fair value activity” has there been since 2008? RQ2. What research topics are being addressed? RQ3. Who is leading fair value research? RQ4. What are the limitations of current research?

The **third step** will be the selection of two databases included in this study (ScienceDirect and Business Source Premier).

The **fourth step** is the selection of articles published in the two databases in the period 2008 - 2011. This period was chosen because in our opinion, the scientific development of fair value gained from the beginning of the financial crisis and implicit with actions undertaken by the committees of international standards regarding this domain. Research was done by the keywords "fair value", being limited to the appearance of these words in the title. We were limited only to those keywords that are directly related to the theme of our research. Even with these limitations, we identified a total of 39 articles that we have introduced in our initial database.

The next step, **fifth**, I have devoted it to the removal of articles. So I have kept only those articles published in academic journals, eliminating those published in magazines. We also eliminated items with the subject accounting in education and debate articles at other articles (paper discussion). After this stage, our sample was reduced to a total of 22 remaining articles.

In the **sixth step**, we analyzed the articles in detail, trying to identify the main directions of research which they pursue. Thus, we have grouped the articles in the research topics listed below. To make this classification we followed the main problems addressed in each item, some items which may be classified in several directions of research. Also within this stage we determined the type of research used.

The **seventh** step is a qualitative analysis of articles selected to be researched. We consider this step as the most laborious and requires a high capacity for synthesis. At this step we assign to the four previously established themes and we made a brief presentation of the aspects reviewed in each article and the conclusions reached by the authors.

The **last step** is the quantitative study on data collected before and after the characteristics that we have proposed to analyze them. Also at this stage we have outlined and conclusions on this study.

3. The main research directions in the sphere of fair value

We consider the most important characteristic examined in this study to be the themes of each article analyzed separately. Thus, the study in detail of the articles contained in this approach, we identified five scientific directions for the research: international regulations on fair value accounting, fair value accounting and financial crisis, financial reporting, fair value relevance and fair value versus historical cost. The objective of this qualitative study, is to achieve a review of the main directions of the research in the field of fair value, highlighting the main aspects reviewed and the results obtained under each theme. We will try, in what follows, treating them with equal importance, the study hoping to fill a gap in the scientific literature and to create the possibility of identifying new research leads.

3.1 International regulations regarding fair value accounting

We accept the idea that expanding the use of fair value is correlated with of the widespread application of IFRS, either through convergence of national accounting systems, either by explicit requirements for listed entities. A rich academic literature has treated the subject of fair value accounting from diverse perspectives, conceptual or empirical approaches, especially in fair value accounting under international standards.

Using cash flows as a proxy for managers expectations, having as sample, all firms listed on the New York (NYSE), American (AMEX), and NASDAQ markets, for which financial requisite and return data are available over the period 2002–2006. Henry Jarva demonstrated that goodwill write-offs under Statement of Financial Accounting Standards No. 142 (SFAS 142) are associated with future expected cash flows as mandated by the standard. Additional analysis reveals that the association between goodwill write-offs and future cash flows is insignificant for firms with contemporaneous restructuring.

Various studies shows skepticism regarding the benefits of using fair value. The main reserves result from volatility and risk that it induces in relevant decisions by stakeholders. It is known that the evaluation has no guarantee period, has an extremely limited validity, given the volatility of market information. Thus, Peter Fiechter, using a sample of 222 international banks from 41 countries, conducted a study that examines whether the fair value option affects earnings volatility. In contrast to other studies that associate higher levels of earnings volatility with fair value accounting, this article has led to the conclusion that banks using fair value option accounting mismatches exhibit lower earnings volatility than other banks. Peter Fiechter stated that "Purpose of this paper is to provide further insights regarding the determinants of the decision to apply the FVO under IAS 39, and the effects of optional fair value accounting on the volatility of bank earnings around the world."

Geoffrey Whittington considered fair value having a central place in the conceptual content. Thus, in his article analyzed the controversy raised by IASB and FASB project by creating a conceptual framework for financial reporting concerning fair value. He raised specific issues, namely the fair value determined by the definition, recognition and measurement of it. In individual case, George J. Benston the deficiencies treated in fair value within SFAS 157.

FASB, through the Statement of Financial Accounting Concepts (SFAC), No.2 "Qualitative Characteristics of Accounting Information " (1980), indicate that relevance and reliability are primary Qualities of accounting information. Thus, Preeti Choudhary investigates reliability differences across recognition and disclosure regimes to shed light on differing incentives and reporting of employee stock option fair values . He concluded that different companies treat employee stock entry and exit, with a tendency to decrease the value of the input.

David Cairns et al. tested by using the fair value on 228 firms listed in the UK and Australia, around the Adoption of IFRS from 1 January 2005. The results are not surprising, concluding that fair value is not used in areas where its use is optional.

3.2 The relevance of fair value

Barth claimed that value-relevance tests are usually joint tests of relevance and reliability, where reliability is more than an agreement about the measure (measurement verifiability), but also involves the correspondence between description, classification and presentation (representation faithfulness), of the phenomenon it propose to represents.

Chang Joon Song, Wayne B. Thomas and Han Yi tested the relevance of fair value to all its levels, as presented in SFAS 157. The results are those expected, namely, in level 3, fair value is less relevant than the other two levels.

Stella So and Malcolm Smith have tested the relevance of HKAS 40 (2004) 'Investment Property' on the presentation of changes in the fair value of investment properties and the results of this

study show a significantly higher market price reaction and returns association when changes in fair value of investment properties are presented in the income statement.

3.3 Fair value and financial crises

Along with the awareness that the global financial crisis is going through, there are more intense discussions about role of financial information and in particular about financial reporting, taking into account to fair value. Questions arise concerning the role previously played by fair value triggering the crisis and then during its fall on market values, or concerning how it can reflect the performance management and can benefit the relationship between the manager and users of accounting information

The first reaction in current crisis is to blame fair value, which essentially is just a messenger, like Paul Andre et al. said. Indeed, it is easy to say as because using a of fair value basis of valuation, real estate prices artificially increased, banks giving mortgages easier. Among proponents of fair value, including Nicolas Veron, says that fair value is the wrong scapegoat for this crisis.

3.4 Financial reporting on fair value

The concept of fair value accounting is supposed to improve the quality of financial reporting. We emphasize the size, direction and significantly influenced in the fair value over financial reporting and decision-users.

Taking into consideration that fair value reporting influence investors' decisions, managers are tempted that when there is no active market for an asset to intentionally deform information concerning assessment of the assets, which leads to a deformed evaluation of the asset value, as demonstrated by Ruth Ann McEwen, Cheri R. Mazza and James E. Hunton through a survey-questionnaire. Same influence over analysts' managers in determining the value of assets is proved by Karl J. Wang in his study.

4. The quantitative analysis of the studies

Distribution of articles included in the sample analyzed on research topics, namely, the years in which were published, identified in the field of fair value, are shown in these figures:

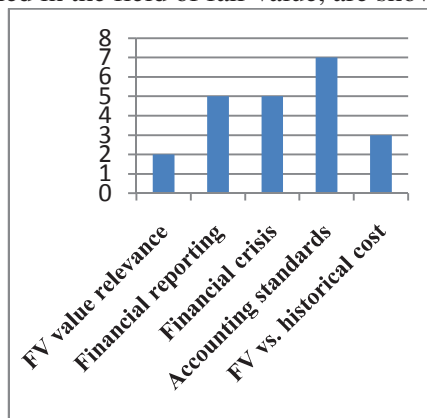


Figure 1:

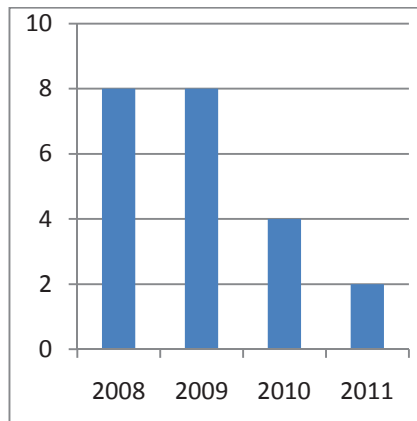


Figure 2:

Distribution of articles on research themes

Distribution of articles by year

Looking at Figure 1 above, we can see a high interest of researchers for "international regulations concerning fair value accounting, which is not surprising considering that extend use of fair value is correlated with the widespread application of IFRS. Looking at Figure 2, we see that in the years 2008 and 2009, this situation can be explained through an increase desire to adopt, both, internationally and nationally a modern accounting system, characterized by increasing concept of "fair value". Also the large number of articles published in 2008 and 2009 can be explained by the economic crisis, which has increased the "popularity" of "fair value".

Regarding the distribution of articles on research methodology, this is equivalent, and namely 11 articles are quantitative, and 11 articles are qualitative .

5. Limitations of research

The study conducted is not without bounds, and we consider to be the limits of our present approach: the extent of the analyzed period of only four years, the sample included only two databases, and it was limited to those items that were selected on the basis keyword "fair value", a greater number of keywords resulting in an extremely comprehensive and difficult sample to be analyzed.

6. Conclusions

Given that, with our knowledge, a study on literature review does not exist in the field of fair value accounting, we believe we have brought a contribution to improving the literature in this field. Considering all aspects examined, we believe we can answer questions addressed at the beginning of the paper, namely: starting with 2008 we can state that the field of fair value has grown pretty much, mainly focused in five directions of research: international regulations on fair value accounting, fair value accounting and financial crisis, financial reporting, fair value relevance and fair value versus historical cost. Given the research findings and conclusions based on them, which we have presented above, we consider that the objectives we set at the beginning of this paper were carried out.

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