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DYNAMICS OF THE FAIR VALUE IN ACCOUNTING

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Abstract

Until now, the historical cost principle has dominated accountancy. At this time, another principle seems to operate: the fair value principle. The discussion will gravitate around the questions: What is fair value? How has concept of fair value evolved? How much is the fair value used as the basis for measurement in IFRS? Are we moving towards a full fair value? In conditions of economic crisis, the measurement at fair value offers pertinent information? To answer at these questions, we have realized by one hand, a description of the manner which the notion of fair value evolved and in the other hand, a deep IFRS analysis which use fair value in assets and liabilities evaluation. As a result of this study, it seems that the most of the assets and liabilities need to be measured at fair value or they may be measured at fair value, if the entity chooses this accounting treatment.

Keywords: fair value, IFRS, measurement.
JEL classification: D46, M41, O47

1. INTRODUCTION

The evaluation is the process through which it is determined the value of the structures in the financial statements which will be recognized in the balance sheet and the profit and loss account. Making an evaluation means a great deal of judgment. Framing this process in accountancy is very complex, causing problems. The choice of the evaluation bases and the concept of maintaining the capital determine the accountancy model used to elaborate financial statements. Various accountancy models have different degrees of relevance and credibility. The evaluation in fair value seems to become the accountancy model promoted within IFRS, but this evaluation basis rises many problems owing to the complexity of the economic reality.

The concept of fair value is very subjective because its definition in itself is different according to the accountancy reference it defines. At present, two accountancy models dominate worldwide: IFRS and US GAAP. IFRS norms are based on principles and let a certain manoeuvre to the entities and auditors. US GAAP norms are based on very detailed rules. The bankruptcy of the great American entities (Enron, WorldCom) has brought to discussion the reliability myth and the pertinence of the information presented according to US GAAP, which outlines the quality of certain norms based on principles such as IFRS.

On second October 2002, IASB and FASB signed an agreement of convergence named Norwalk Agreement, through which both bodies work together to harmonize the two accountancy models, in fact both have anglo-saxon origin, that have the goal to produce high quality standards. In 2002, Crouzet P. and Veron N. said “the relation between IASB and FASB represents an association of mimetic and competition”. Today, this assertion can be combated taking into account that, on seventeenth November 2007, SEC made public that it admits, starting with the financial exercise 2007, the financial statements of the foreign entities according to IFRS standards, without a previous reconciliation with US GAAP [20]. Following this American approval, UE engaged to accept, starting with the financial exercise 2008, the financial statements established according to US GAAP standards. Thus, at present, two accountancy models prevail worldwide: IFRS and US GAAP.

At international level fair value is one of the most media presented concept. This study is trying to answer to the following questions: What is fair value? How has concept of fair value evolved? How much is the fair value used as the basis for measurement in IFRS? Are we moving towards a full fair value? In conditions of economic crisis, the measurement at fair value offers pertinent information? In order to achieve this study we preceded with a normative research which has the goal to present it “as it has to be” used the fair value in the evaluation and the recognition of the economic-financial transactions having the purpose to reflect the trusty image in accountancy.

2. CONCEPTUAL DELIMITATIONS REGARDING THE FAIR VALUE

The fair value is the translation of the English term “fair value”. However, this term is translated differently in various languages: just (*juste*) in French, real (*reeele*) in Dutch, reasonable (*razonable)* in Spanish, actual value attributed (*beizulegender zeiwert*) in German, fair value without translation in Italian. In Romanian, the translation of the term “fair view” followed the French way, being used the term of “fair value”.

2.1. THE BRITANNIC CONCEPTION REGARDING THE FAIR VALUE

Fair value is a consequence of the principle *true and fair view*. This principle was defined for the first time in 1947 in the Companies Act from The United Kingdom [18].The principle *true and fair view* (true and honest image) replaced the syntax *true and correct view*, which was introduced for the first time in the Companies Act in 1900, as an obligation to draft a balance sheet that has to offer a “true and correct” image of an entity’s financial situation. In the United Kingdom the obligation of the financial statements to present ‘’a true and fair view’’ prevails upon respecting any other regulation. Thus, it is permitted the derogation from a certain rule or accountancy standard if this thing is necessary for the financial statements to meet the requirement “true and fair view”.

According to the conceptual framework from Great Britain, the used evaluation bases are the historical cost and the actual value. The actual value can be determined in the following way: actual value = min (current cost; recoverable value), where the recoverable value = max (net achieving value; value of utility). By the way of determining the actual value we mean the actual value presents, mainly, a value of cancelling the asset [9]. As it is noticed, the fair value is not defined as an evaluation basis in the conceptual framework in Great Britain, but respecting the principle "true and fair view" shows the fact that, both the historical cost and the actual values used in evaluation, lead to the presentation of a correct and trusty image in accounts.

2.2. THE AMERICAN CONCEPTION REGARDING THE FAIR VALUE

United States of America have been for many years champions, leaders in using accounting in historical costs [21]. The conceptual framework mentions 5 bases of evaluation: historical cost, current cost, liquidity value, net achieving value and the updated value. By all means, FASB has defined for the first time the notion of fair value, since 1976, in FAS 13''the price at which the propriety can be sold in a transaction between parties between which there is no relation''. It should be mentioned the fact that fair value was used initially to evaluate the non financial assets. In 1980, FAS 35 regulates the use of the fair value for evaluating the shares from the retirement pensions and recommends that the evaluation of the fair value be made by independent experts that should have certification in establishing fair value. Ten years later, FAS 107 allowed the use of the fair value for all the financial instruments. From 1990 till 2006 a great number of standards used the fair value in evaluating the elements of the balance sheet: FAS 107, FAS 114, FAS 115, FAS 116, FAS 119, FAS 121, FAS 123, FAS 125, FAS 13 [1].

Still, in September 2006, FASB published SFAS 157 "The evaluation of the fair value" which defines the fair value, establishes a conceptual framework for the evaluation of the fair value and mentions the information that has to be presented about fair value. This regulation allows and stimulates entities to evaluate assets and liabilities at the fair value. Which was the reason of this radical change? FASB considered this change : "…..as the time passes, the historical cost becomes irrelevant by presenting the current financial position of an entity….the financial statements have to offer the users pertinent information for taking investment, credit decisions and other types of decisions''.

According to SFAS 157, the fair value is defined as: "the price that would be got after selling an asset or paid for the transfer of a liability in an ordinary transaction between the market participants on the date of evaluation". This definition has two characteristics: the first- the fair value reflects a hypothetic transaction, the word ''would'' in English, bearing this consideration; the second-the fair value is an exit value, being explicitly forbidden the use of the entry values (current cost) or the value of use. Still, making a comparison with the latest statement, according to which the fair value can only be an exit value, SFAS 157 presents examples, according to which the fair value can be determined on account of the entry values or the utility values, but analyzed from the other entity's point of view with whom the transaction is made. This aspect occurs, because lacking a sale price for the asset which is wanted to be sold, its fair value should be zero or even negative, whereas for another entity, the concerned asset could have a value of utility. SFAS 157 represents today the starting point for a project of IASB which aims at issuing a standard that should contain

clear principles of applying the fair value. The appearance of this standard is predicted for the year 2010.

2.3. INTERNATIONAL CONCEPTION REGARDING THE FAIR VALUE

IASB used the fair value as an evaluation basis, for the first time in 1998, once with the appearance of the IAS 32 standards *Financial Instruments: Presentation and description* and IAS 39 *Financial Instruments: Approval and evaluation.* By all means, the complexity of evaluation in fair value of the financial instruments had as consequence, at least at European level, the non application of these standards(IAS 32 and IAS 39) by the European companies which apply IFRS (Regulation 1606/ 2002/CE). The following standards use the fair value in evaluation: IAS 16 *tangible assets*(by replacing the market value used to establish the value of an asset following the revaluation with the syntax of the fair value), IAS 40 *Investment property* and IAS 41 *Agriculture* in 2000, IFRS5 *Non-current Assets Held for Sale and Discontinued operations* in 2004 and IFRS 6 *Exploration for and Evaluation of Mineral Resources* in 2005. The fair value is considered the basis within the standards issued by IASB(Capron M., 2005). It comes with the will of the regulator to offer to the elements in the balance sheet the capacity to present their economic value. In 2007, Thovenin D. numbered 3 996 usages of the term "fair value" within IFRS.

The conceptual framework IASB recommends 4 bases of evaluation of elements in the financial statements: historical cost, current cost, the achieving value and the updated value. Fair value is not defined by the conceptual frame , its definition being found in the standards issued by IASB, as: "the amount at which an asset could be marketed or discounted a liability, by free will, between the parties involved, in a transaction in which the price is determined objectively''. So, it is about an *estimation* and not an observation, as the case of the market value. Thus, the fair value is a transaction which could take place, but which, in fact, did not take place [17]. Because the evaluation is not an exact science, most of the evaluation processes express opinions, but not a certainty [16].The expression of an opinion upon the market value of an activity or a group of assets is subject to the subjective thought and that is why the establishing of the fair value generates great divergences among specialists.

We ask ourselves: why is not the fair value defined by the mentioned conceptual accountancy frameworks, although this evaluation basis is used both in the American, British accountancy and also in the one according to IFRS. We consider that the answer consists of the lacking a detailed presentation of the fair value with the other evaluation bases from the conceptual accountancy framework: the fair value can be historical cost, current cost and achieving value and updated value, too. Benston G.J. (2008) mentions, in this respect that, the fair value presents in most of the cases exit values(for the production in execution or some specialized machines, the fair value can be zero or even negative), but there are statements when the fair value can be assimilated to some entry values or utility values, too.

3. ESTABLISHING THE FAIR VALUE – PRESENT AND FUTURE

3.1. AT PRESENT …

SFAS 157 identifies three levels for the calculation of the fair value:

- Level 1: When assets or identical liabilities can be changed on an active and organized market, the fair value is the market price on the date of evaluation ;
- Level 2: When there are assets or similar liabilities that can be changed on an active market or inactive market, the fair value being established according to the price of assets and similar liabilities on the date of evaluation;
- Level 3: When there is no market on which the assets or liabilities could be quoted or there are not any similar elements on the market, in case they existed, the fair value would be determined using an evaluation technique, often based on updating the future cash flows;

The first model is known as "market to market" and the other two as "market to model". Level 1 deals with the existence of a sufficiently liquid market. Placing the value in the core of discussion, the accountancy regulator accepts the existence of an informational efficiency of the Stock exchange, the Stock Exchange being an example in this respect. But in statements of economic crisis, like at present, this efficiency is debatable. So, it is asked the question if indeed the Stock Market exchange of a quoted share mirrors its fair value, given the fact that, for many times, the stock exchange is influenced by the behaviour of the other investors, and not necessarily by the future cash flows forecasted to generate them. It is a complex question which surpasses the field of accountancy which probably finds its answer in the finance theory. When financial markets are not organized it is demanded to make a subtle analysis of hypotheses according to which it can be established the fair value. So, the evaluator is often put in the situation to use the approach ''market to model''. Still the sensitivity of the results at the market parameters makes the manipulation be always possible, which affects the reliability of the evaluation at fair value.

The issues imposed of evaluation, mainly the ones belonging to the determination of the fair value had as a consequence the founding of the *International Valuation Board* (IVSB). This committee has the role to be an interlocutor in all the international discussions referring to evaluation, participating actively in the review of future norms, thus contributing to the establishing of certain more realistic principles regarding the fair value.

For the ***non financial assets,*** the IFRS approach regarding the establishing of the fair value is different from the American one, in this respect, IAS 36 *Impairment of Assets* distinguishes three levels:

- the price which appears in an irrevocable sale agreement;
- unless it exists an irrevocable agreement, the decreased market price associated with the costs for the sale;
- unless it exists any irrevocable agreement, nor active market, it will be kept " the best available information to present the net amount that a company could get, on the balance sheet date, according to the sale of the asset, following a transaction made in conditions of normal competition, between well-informed parties which are acknowledged of it".

However, practitioners consider that, when the fair value cannot be established reliably, the recoverable value should correspond to the utility value. In this respect, IASB published in May 2008 a proposal for the modification of IAS 36, with the purpose to use a method to update the future treasury flows in order to establish the fair value, when this one cannot be established according to the information on the market.

For the ***financial assets***, IAS 39 identifies 2 levels for the calculation of the fair value:

- *There is an active market*: in this situation the fair value is the price at which the transaction would be made on the date of the balance sheet for that in-

strument(without the modification of the instrument or its form) on the most advantageous active market at which the entity has access immediately;

- *There is not an active market*: in this situation an entity establishes the fair value using an evaluation technique. The evaluation techniques include the use of the latest transactions, in objective conditions, from the market, between available parties, making reference to:
  - the actual fair value of another instrument which is almost identical;
  - the analysis of the updated treasury flows;
  - the methods of analyzing the options;

In this respect, the fair value is estimated by using the information from the market, counting on the information specific to the entity. The following factors must be taken in consideration to establish the fair value through an evaluation technique: value-time of currencies(meaning the interest at the basic rate or with zero risk), credit risk, foreign currencies exchange, the price of goods, the Stock Market exchanges of the instruments with own capital, market volatility, risk of advance payment, costs of administrating a financial asset or a financial liability.

3.2. IN THE FUTURE …

By having the goal to make a common conceptual framework, IASB and FASB analyze the evaluation methods used at present in both accountancy models. There were found almost 100 different methods of calculation for the evaluation of assets and liabilities. Following the study, the two bodies considered that they could reduce this multitude of calculation methods to 9 large categories, as it results from the table below [12].

Table no. 1 Actual, Estimated, and Forecast Prices and Non-price Amounts

Possible prices	**Possible adjustments**
Actual or estimated past entry price (including accumulation of prices and costs of constructed assets)	a. Actual transaction costs b. Systematic increase or decrease to a terminal value c. Valuation allowances for impairment
Estimated past exit price	a. Actual transaction costs b. Systematic increase or decrease to a terminal value c. Valuation allowances for impairment
Actual or estimated current market entry price	Actual or estimated transaction costs
Estimated current market exit price	a. Estimated transaction costs b. Prepayment penalty c. Early withdrawal penalty d. ‘Fire sale’ discount e. Costs to complete or otherwise prepare for sale
Forecast future entry price	Estimated transaction costs
Forecast future exit price	a. Estimated transaction costs b. Prepayment penalty c. Early withdrawal penalty d. ‘Fire sale’ discount e. Costs to complete or otherwise prepare for sale

Possible nonprice amounts	Description
Value in use	Probability weighted future cash flows to be generated by using (not selling) an asset discounted to current date
Prescribed present value computation	Probability weighted or most likely future cash flows discounted at a specified rate
Fair-value-based amounts	A form of prescribed present value. It starts with a fair value computation similar to that of Concepts Statement 7, but omits one or more factors that market participants would consider.

The table is not exhaustive, it represents only a synthesis. There is a series of complex evaluation methods, such as the corridor method from IAS 19, which presents a mix between a past exit price and a future entry price. This method does not have a conceptual basis that is why, probably, it will not be maintained in the future. The discussions are taken by the two bodies regarding the evaluation only, and not the recognition. But, it is known that according IFRS, an element is approved only if it is evaluated credibly. For example, the goodwill is accepted only at the purchase of a subsidiary. It is evaluated then according to the past exit price (in fact, all the purchased assets are evaluated at a past entry price, but later on , according to a certain accountancy method, this evaluation basis could be modified). Furthermore, most of the non corporal assets generated internally are not accepted because they cannot be evaluated credibly, thus they are evaluated at a zero value. It would be better, probably, to add in the table another evaluation method: the evaluation at zero value.

Fair value is associated frequently with a current exit price (net achieving value), but it cannot be extended to the evaluation of all the assets and liabilities. This is the reason for which in the taken discussions, the two bodies did not choose a single evaluation basis, still they are trying to reduce the number of the 9 methods, keeping at present for the study, only three of them: actual or estimated past entry price, actual or estimated current market entry price, estimated current market exit price. Furthermore, the present discussions regarding the way in which it is wanted the evaluation in fair value in the future comprise three levels to establish this value [13]:

- *Level 1 inputs* are quoted prices (unadjusted) in active markets[i] for identical assets or liabilities that the entity can access at the measurement date. Although an entity must have access to the market at the measurement date, it does not need to be able to sell the particular asset or transfer the particular liability on that date, e.g. if there is a restriction on the sale of the asset. However, the entity must be able to access the market when the restriction ceases to exist.
- *Level 2 inputs* are inputs other than quoted prices included within Level 1that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Level 2 inputs include the following:
  - quoted prices for similar assets or liabilities in active markets;
  - quoted prices for identical or similar assets or liabilities in markets that are not active (paragraph B5 provides examples of factors that may indicate that a market is not active);
  - inputs other than quoted prices that are observable for the asset or liability (e.g. interest rates and yield curves observable at commonly quoted inter-

vals, volatilities, prepayment speeds, loss severities, credit risks and default rates)
  - inputs that are derived principally from or corroborated by observable market data by correlation or other means
  - (market-corroborated inputs).
- *Level 3 inputs* are inputs for the asset or liability that are not based on observable market data (unobservable inputs). Unobservable inputs shall be developed using the best information available in the circumstances, which might include an entity's own data.

4. THE ACTUAL TREND REGARDING THE EVALUATION IN FAIR VALUE

Through the requirement from IAS 1 *The presentation of the financial statements* according to which the entities have to make the situation of the global result- as major situation in reflecting the performance of the entity and unique, if the company chooses this presentation method, on the one hand, also using the fair value to evaluate most of the elements of the asset, on the other hand, it is noticed the tendency of the certification body IASB towards an accountancy in fair values. But, probably, time will pass till they accept the evaluation in fair values, for all the elements of the balance sheet, because of the disadvantages such a model could impose. The determination of the fair value of an asset or liability leads to the discovery of a value variation recognized differently, according to the nature of the evaluated element. The following table presents synthetically the elements that have to be evaluated or can be evaluated in fair value [14].

Table no. 2 Fair value measurement in IFRS

ASSET	Ulterior evaluation bases	Recognition
Financial assets - Assets available to sale - Financial assets evaluated in fair value through the profit and loss account	 *Fair value*- accountancy rule *Fair value*- accountancy rule	 Own capitals Result
Tangible and intangible assets	*Fair value* – accountancy option (alternative approach)	Own capitals
Real estate investments	*Fair value* – accountancy option (basic approach)	Result
Fixed assets owned for sale	The minimum between cost and *fair value* minus the sale costs- accountancy rule	Result
Biological assets	*Fair value* minus the costs estimated at the selling points(centres)- accountancy rule	Result
Exploration and evaluation assets	*Fair value* – accountancy option (alternative approach)	Own capitals
Agricultural production	*Fair value* minus the costs estimated at the selling points(centres)- accountancy rule	Result
Assets regarding the retirement pension regime	*Fair value* minus the costs estimated at the selling points(centres)- ac-	Result

	countancy rule	
Contracts paid in stock options	*Fair value*- accountancy rule	Result
Liabilities evaluated in fair value through the profit and loss account	*Fair value*- accountancy rule	Result
Commitments regarding the retirement pensions and other similar elements	*Fair value*- accountancy rule	Result

As it is seen in the table, it is noticed that, at least in the case of assets, most of the elements *must be* evaluated in fair value (the financial assets available to sale and the assets owned for transactions which are evaluated in fair value; the fixed assets owned for sale, biological assets and agricultural production are evaluated in fair value minus the transaction costs) or *could be* evaluated in fair value, if the entity chooses this accountancy approach (considered basic approach in case of real estate investments, alternative approach in the case of the exploration and evaluation assets, alternative approach in the case of tangible and intangible assets). But, there is a long way till one could get a complete evaluation in fair values. This fact occurs because, if it is wanted the settlement of an accountancy model, having as a basis the evaluation in fair value of all the elements in the balance sheet, one must give up to the achievement criterion, which involves the abandon of the historical cost principle and, equally, the prudence principle to the extent at which the latent profits are found and taken automatically into consideration.

The evaluation in fair value of all the elements of the balance sheet relies on the concept according to which an asset is left and a liability is paid permanently. It is about the observation of a virtual result [15]. Because there is no real transaction, accountancy would provide a piece of information upon what *could* happen. In an accountancy model in fair value, the evaluation of the entity's performance upon a certain period will comprise the achieved and the non achieved results, determined, either according to the market price, or the internal estimations. It will be difficult to make a distinction at this level, between the objective evaluation of the administration owned by the entity and the markets' sanction upon the value of the balance sheet elements. In such a context, Bernheim Y (1999) mentions that "the hierarchy of the different financial statements will have to evolve: the profit and loss account will lose totally or partially its interest of main element of the performance, the balance will keep its significance of inventory value, the statements of the modifications regarding the own capital are pointless, whereas the treasury table will become the main document of interest".

5. PROS AND CONS REGARDING THE EVALUATION IN FAIR VALUE

As long as the markets are liquid, the application of the fair value does not rise real difficult problems, but, in the situation of existing the non liquid market, the entities must rely on, on the one hand, on the internal methods for the calculation of this value and, on the other hand, on the market parameters, which in these conditions are difficult to be estimated. The banks and the insurance companies are against the principle of accountancy in fair value. They mention that this concept, which supposes the existence of a market value, is in fact theoretical, because no market is really efficient in the financial theory (perfect information, risk aversion, liquidity). A survey made in USA [2], upon 136 credit institutions, regarding the pertinence and efficiency of the fair values for the information presented in the enclosures of the financial statements presented the following:

- The fair value of the deposits is not considered pertinent;
- The fair value of the loans and credits is not considered as showing sufficiently the legal depreciation related to the non payment risk as well as the variations of the economic value related to the exposure of the interest rate risk;
- The fair value of the loans and credits does not improve significantly the efficiency of evaluating these assets when they are not reliable;
- Investors trust the fair value of loans and credits from healthy banks more than from fragile ones;

Bernheim Y (1999) presents the advantages and the qualities of the fair value as: *the predictive character*: the fair value is the best prediction basis for the future financial flows; *comparability*: fair value reflects the updated value of all the instruments no matter their nature; *coherence*: the fair value is adapted to the active administration of the financial risks; *reduced complexity*: an unique evaluation model is simpler than a model which allows the application of various methods of costs and value; *neutrality*: being determined by references to external data, the fair value is independent out of the parties' intention and quality, date of operations' origin, the instruments' nature.

Thus, it would seem that the evaluation in fair value is good because it hinders the manipulation of results by the managers, in comparison to the accountancy in historical costs which allows the choice of the moment when these value pluses could turn up. In this respect, Richard J (2004) says that " the real manipulation consists of the power of deciding the distribution of dividends on certain potential non achieved benefits, whereas the real non manipulation is the obligation to notice the achieved results (in the moment of sale) so as to make the distribution of dividends". But the manipulation can exist also in the situation in which it would be recognized only the achieved incomes. An example in this respect regarding the manipulation of the result by using the fair value for the evaluation of the assets appears in the case of Enron Company's bankruptcy. One of the means used by Enron to improve its financial results consisted of selling an asset at the end of the financial exercise to a "friend" company or a company founded especially with this purpose, and buying again the asset at the same price at the beginning of the financial exercise [8]. This sale operation allowed the transformation of the potential value pluses in achieved value pluses, with direct consequences upon the result of the exercise. Furthermore, we consider that the advantage of the fair value regarding its neutrality could be controversial also because of the fact that the fair value is not necessarily a value which is established on an active market but it could be an estimated negotiation value or an actual value which is extremely manipulative.

Professionals are discontent with the high costs for the calculation of the fair value, the increased volatility of the accounting data and the difficulties appeared to evaluate and compare non negotiable assets. From a practical point of view, the accountants should make an accounting document in which they should show how the fair value is established by them. Even in this way, the result in fair values could be manipulated. In this respect, Ionascu I. (2003) mentions: "the evaluation of the assets of the balance sheet in fair value presents a risk result manipulation, by the fact that for some of the company's assets there is not a market price, and it will be chosen internal models of evaluation, triggering the temptation of the managers to "move some results from an exercise to another".

Accountancy in fair value leads to the decrease of the company's production capacity [3]. The integration plus the potential, beneficiary values could have as consequence the distribution of dividends which do not correspond to the achieved results and the available resources of the entity, fact that could led to the perturbation of its financial equilibrium and

the decrease of the auto financing capacity. In this context, the prudence principle, specific to the accountancy in historical costs seems, above all, a way less confusing to deal with uncertainty [4]. In other words, respecting this principle, on the one hand, protects the shareholders and keeps their confidence, and on the other hand, hinders the risk of distributing fictive dividends, suspect to affect the financial equilibrium of an entity and its development.

The evaluation in fair value offers more complete information regarding the actual value of the elements and meets the qualitative characteristic of the accountancy information regarding transparency. Thus " the result shows the real economic value of the businesses and the balance sheet mirrors the assets, liabilities and own capitals at their fair value'' [1]. The impact of the evaluation in fair values is significant. A recent study made upon the banking companies from France, quoted at the Stock Exchange, which applies IFRS, demonstrated that the evaluation in fair values of all the elements of the balance sheet leads to a result three times higher than the net result [10]. Also, Hodder L.D. et al (2006) following a study made on 202 commercial banks quoted at the Stock Exchange emphasized the fact that, if there had been used the fair value for the evaluation of all the elements in the balance sheet, then the obtained result would have been three times higher than the global result and five times higher than the net result.

The reliability, objectivity, neutrality are indispensable qualities in accountancy which cannot be attributed to the evaluation of all the elements of the balance sheet in fair value. In administration, many managers do not accept the use of the evaluation in fair value as means of administration and financial reporting. Moreover, several users of accountancy information- banks and insurance companies - disagree with the evaluation in fair values of all the elements in the balance sheet. If the financial statements were evaluated at fair value, even if the users of the financial information do not want this, they would lose any significance and will not be exploited, which could lead to an opposite result to the one searched. However, despite this statement, the fair value is the most pertinent measure for the evaluation of the transactions from the achievement day because it mirrors the reality of the moment.

6. THE FAIR VALUE AND THE ECONOMIC CRISIS

In conditions of inflation, the evaluation in fair values offers more pertinent information, in deflation conditions, the accountancy in historical costs, accompanied by the application of the prudence principle, is as pertinent as the former one. If the prices are decreased, the accountancy in historical costs provides a result which represents the difference between the achieving incomes from the transactions made during the period (lower, following the decrease of prices) and the expenses evaluated in historical costs corresponding to these incomes (higher because they belong to the previous periods, when the values at which the elements were evaluated on the entry date were higher). Thus the result is minimum, allowing the preservation of the production capacity of the entity by distributing a lower sum as dividends and by re-establishing the entry values of the fixed assets at the historical costs.

In the actual context of the economic crisis, the evaluation in fair value generates significant errors at the result level, errors which influence mainly the entities from the financial sector and also could affect them seriously on long term. An entity which uses the fair value in evaluation, in the actual conditions of decreasing prices, will witness losses that could generate negative signals for the investors who could be cheated eventually.

So, the use of fair values in conditions of economic crisis is not justified. It is the reason for which the American government issued on the third of October the act *Emergency Economic Stabilization Act* through which allows SEC to abolish the application of SFAS 157 for all the entities or for all the assets. Still SEC did not take this opportunity, but preferred to join FASB to publish on the tenth of October 2008 an amendment to SFAS 157 which establishes the determination of the fair value for a financial asset when the market does not work. As a consequence, on the thirteenth of October 2008, IASB revised IAS 39 to allow the transfer of certain instruments which previously were evaluated at the fair value, so that they could be evaluated at the liquidated historical cost [7].

7. CONCLUSIONS

The accountancy information has the role to help the users to take decisions. That is why, it must meet the following qualitative characteristics: illegibility - easy to be understood by the ones to whom it is sent; pertinence – useful to the analysis of the financial situation, performance and the evolution of the treasury flows of an entity; reliability – without errors and manipulations; comparability – to assure the achievement of comparisons in due time (from a financial exercise to another for the same entity) and space (from an entity to another one). By using the fair value in evaluation allows the presentation of pertinent and comparable information. But it is not certain that the evaluation at fair value meets the other two qualitative characteristics of the accountancy information: illegibility and reliability.

The reliability of the fair value depends on the asset that has to be evaluated and the existence of the market on which it could be negotiated theoretically. The evaluation at fair value is applied to the quoted shares without great difficulties. But, the accountancy regulations impose it on other assets and liabilities which are not quoted or are not the goal of a transaction on the market. So, with the exception of the fair values established on an active market, all the other must be established by internal methods which do not lack subjectivity. It results that reliability and the pertinence of the fair value are related to the active aspect of the markets. Lacking an active market there appear problems regarding the calculation of the fair value. The fair value contains the market value and tends to cover all the values from the estimations based on economic calculations which involve more alternative methods of evaluation. The fair value is rather a principle and recognizes every instrument of evaluation in accordance with it.

The actual experience regarding the collapse of the capital markets stopped, at least temporarily the tendency of evaluating in fair value of the elements in the balance sheet. Still, the fair value is the best available method to establish the value of the financial instruments and mirror the financial position of an entity. By presenting the fair value of the elements in the balance sheet the entity creates transparency and gives confidence to investors. Referring to the methods of evaluation used to establish the fair value, we consider that they do not bring again into discussion the pertinence of this value.

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[i] An active market for the asset or liability is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.