

FAIR VALUE ACCOUNTING – THE BEGINNING OF THE END

UDC 330.342.143:338.124.4 657

Milorad Stojilković

Faculty of Economics, University of Niš, Serbia
milorad.stojiljkovic@eknfak.ni.ac.rs

Abstract. *On 12th September 2008, the US faced the crash of financial markets which spread diffusely to the financial markets across the world. Financial instruments of many global companies that were evaluated according to fair value became worthless. Numerous respectable stakeholders, in days to follow, demanded the abolition of fair value accounting as a prompt measure for the protection of financial markets and banking systems. The mentioned events raised the question of the prospects of fair value accounting. In that context, the author examines some relevant issues of interest for considering the future of this controversial concept.*

Key Words: *neoliberal model of capitalism, financial crisis, financial market, fair value accounting*

INTRODUCTION

The crash of financial markets in September 2008 and the subsequent economic crisis, which is still in progress, have marked, considering its consequences at the global level, the beginning of the first decade of the millennium. The result was the examination and redefining of principle paradigms not only in economics, but also in many other facets of life.

When it comes to financial reporting as a precondition for efficient functioning of financial markets and timely and correct informing of stakeholders in global market competition, special attention is directed towards the concept of fair value. Namely, financial instruments of numerous corporations that became worthless in a day or their value written off in high amounts, were evaluated and expressed in balances according to fair value. At that moment, the requests of respectable regulatory bodies in the area of banking for abolishing evaluation according to fair value emerged as a prompt measure for the protection of banking i.e. the financial system from further collapsing.

This is the primary motive that underlines the paper that explores whether the crash of financial markets in 2008 marked the beginning of the end of fair value accounting. This concept became controversial from the moment of its inauguration through US GAAP and

IAS/IFRS two decades ago to the present day, when the requests for abandoning the concept appeared as it failed to meet the challenges of the time and requirements of stakeholders. The mentioned controversy is elaborated in the professional literature through comparative analyses of advantages and disadvantages of fair value accounting and historical cost accounting. During this and previous year, there has been a number of research in potential correlations between the crash of the US exchange markets and financial reporting according to fair value. Hence the article is conceived in that way to emphasize some relevant issues that are, in my opinion, usually neglected.

The following issues should be considered:

- 1) fundamental characteristics of economic model in which fair value accounting emerged and developed, and
- 2) some relevant features of economic and financial transactions and categories that are acknowledged and valued according to this concept.

In my opinion, the considerations of the above issues are relevant for analyzing the prospects of fair value accounting, which will be the theme of the third section of the paper.

1. FUNDAMENTAL CHARACTERISTICS OF NEO-LIBERAL MODEL OF GLOBAL ECONOMY

Fair value accounting emerged as result of scientific research in the area of financial accounting in the domain of the evaluation of financial reporting elements of general purpose. It is a product of neo-liberal model of American capitalism. The neo-liberal Anglo-Saxon capitalism has been imported, through the globalization process, in the regions and countries that are under the US influence as well as global corporations, whose head enterprises are situated in the US or with the majority of US investors. This process of inauguration and glorification of American capitalism as the most effective one commenced in the 1980s of the prior century and is still in progress. This state of affairs abides regardless of the long-term experience accumulated during the great financial and economic crisis. It began with the crash of financial markets in September 2008 in the US and spread across the world. The crisis is still in progress and the final negative consequences (loss of shareholders' equity, decrease in production, high job insecurity etc) cannot be precisely quantified. However, measures undertaken in the US, EU and G20 countries and other crisis-stricken economies suggest that none of the Western leading economists, politicians and businessmen, except some individual insights, pointed out the direct connection of Anglo-Saxon capitalism and the current crisis.

This issue involves the examination of fundamental economic characteristics of this type of capitalism that lead to its fetishism in economic practice and professional literature, which in turn created the prerequisites for the emergence and development of fair value accounting. It is possible to identify a number of features. Beginning with the importance they have for this issue, the following characteristics can be selected:

- a) fast and continual growth of the profit of global corporations as their business credo,
- b) liberalization of regulatory framework in all the areas of economy (deregulation and self regulation),

- c) ignoring the warning signals from the market (bankruptcy of large corporations in all the area of economic activity),
- d) using all allowed and non-allowed compulsory means in the area relevant for sustaining, development and spreading of Anglo-Saxon neo-liberal system of economic activity and democracy.

a) Information and telecommunication revolution in between two centuries enabled multinational companies with headquarters in the US to develop into global corporations. New information and telecommunication technologies made space relative when it comes to the entry to the global market. Managing the dependent and joined enterprises located in the world began its progress in real time. This enabled their foundation in the regions and countries with cheap raw material and cheap labor. Parallel to this process, global media influenced, through continual marketing, the creation of demand for global products in the most distant parts of the world. In undeveloped countries, this demand reached its solvency through various modes of expensive credits placed by global banks into the population sector. In the public sector of these countries the same process commenced and the International Monetary Fund and the World bank were the main source of expensive credits.

It is understandable that the usage of cheap resources, cheap labor followed by the increase in the retail scope had as a consequence the increase of profit in production activities. Unequal relationships in international trade that were seen as caught between cheap resources of undeveloped countries and expensive final products secured the prosperity for global production and trade chains. The banking sector formed, through risk protection firm, interest rates for undeveloped countries at the level considered usury in the traditional economy. In the same way, insurance premiums were formed. In informatics, Microsoft became a world monopolist, which resulted in all the consequences that came later. As described, huge profits of US global corporations were made. They were transferred through distribution instruments (dividends, interest, thirteenth wage etc) to home country i.e. the US or reinvested across the world.

However, human folly and greed are unlimited. The high standard in the US and countries that resemble it created consumer society that pursued ever higher profits of global corporations. These profits directly or indirectly created the luxurious life. The issue of the morality of the manner in which they came to such a high living standard is irrelevant. Economic Machiavellism has become the reality of contemporary developed countries.

The very greed for creating huge profits at any price and as fast as possible, an important characteristic of neo-liberal concept of capitalism, represents a fruitful foundation for the creation and development of fair value accounting. When it comes to financial instruments, it enabled the forming and distribution of huge unrealized gain." The rapidity of users' response is emphasized by recognition of loss and gain for derivatives in a profit and loss statement, before they are realized in reality (ex ante), which influences the timeliness of information and its efficient utilization in making business decisions."¹ Inclusion

¹ Goranka Knežević. "Izveštavanje o finansijskim derivatima u funkciji unapredjenja kvaliteta računovodstvenih informacija", Zbornik radova sa XXXVII simpozijuma SRRS, Zlatibor, 2006, p. 231.

of unrealized gain in a profit and loss statement and consequently their distribution can be justified by the need of securities owners to react quickly to market oscillations. Under contemporary conditions, the information is available to them at any moment, thus timely reaction to change in the price of derivatives, hybrids and other securities is secured.

The primary aim of the fair value concept is de facto expression and disposition of unrealized gain. It is generally known that fair value in many cases is not market price but a hypothetical market price established by various assessment methods and techniques. "The greater the share of fair value gained through different assessment techniques in fair value accounting of an enterprise, the lesser the validity of presented information because of the possibility of manipulation."²

Only those unfamiliar with the fundamental maxim of the neo-liberal concept-profit at any price, are astonished by the data that the Security and Exchange Commission issued following the crash of financial markets in the US. The data are related to the use of the concept by managers as an instrument for willful modeling, i.e. increase in financial results through permanent creation of unrealized gain. Namely, the management of numerous corporations used various assessment techniques for modeling financial results instead of establishing fair value based of stock exchange price. At the same time, they used this instrument for increasing assets value in balances. "This was possible since, according to standards, the changes in fair value were presented as an increase in the financial instruments account in assets, whereby the value of total assets was increased and as unrealized gain in the profit and loss statement, whereby the total result was increased."³

In other words, the economic environment and serious shortcomings inherent to the concept of fair value served managers of numerous corporations to increase the wealth of owners in a particular accounting period through accounting techniques and not through results in the area of production, sale and service. Namely, the parameters used in evaluation as defined by the management were based on various assessment techniques and basic inputs. Assets (of financial institutions in the US on 31 December 2007-M.S.) valued by means of parameters of the third level reached the value of USD 540 billion."⁴

To conclude, in the environment demanding huge profits of corporations in a short span of time, regardless of the manner in which they were acquired, immoral managers found in the concept of fair value accounting one of the instruments to deceive shareholders, insurers, fiskus, employees and the public in believing they successfully managed corporations.

b) The neo-liberal concept of Anglo-Saxon capitalism is characterized by the process of deregulation in all the areas of economic life. The doctrine of laissez faire, laissez passer emerged. In the past decade, the thesis that the market is the best regulator and that the invisible hand of the market secures the economic optimum and most efficient usage of limited resources was put forward. However, the consistent implementation of the doc-

² Kata Škarić Jovanović: "Finansijska kriza –povod za preispitivanje osnova vrednovanja u finansijskim izveštajima", Zbornik radova sa XXXVII simpozijuma SRRS, Zlatibor, 2009, p. 424.

³ Goranka Knežević: "Izazovi vrednovanja finansijskih instrumenata u uslovima finansijske krize", Zbornik radova sa XL simpozijuma SRRS, Zlatibor, 2009, p. 447.

⁴ Goranka Knežević: op.cit. p. 448

trine at the global level led to the creation of monopoly and oligopoly in the US and world market.

"These extreme market structures are most evident with the producers of software packages"⁵. When it comes to the production of automobiles, the three great manufacturers in the US have been mentioned over the past decades.

The same situation is in the world market of audit service, where four great audit firms realize revenue and profits that are greater than the budgets of small and undeveloped countries.

A question is raised whether it is possible to introduce and apply global anti-monopoly laws that should secure the conditions for equal market competition. This would be consistent with the doctrine of the market knows best, considering that the monopolies and oligopolies derogate market activity. However, when considering this issue, one should have in mind the following viewpoint:

" It is important to emphasize that oligopolists or monopolists abide in the most developed countries leading the movements of international trade and it is not in their interest for the anti-monopoly law to be introduced or even implemented."⁶ Thus, one should not wonder at the fact that, in the phase of euphoric demands for deregulation, the US faced with the attitudes that anti-monopoly laws represent the impediment to the economic efficiency and that some should be abolished even and some mitigated as it was done during 1975-2000.

The demands for a total deregulation went as far as being associated with freedom. Thus conceived deregulation presumed free activity of market forces not only in economy, but also in all other areas of life (e.g. education, healthcare), free pricing, including provisions, free entrepreneurship, which implies the freedom of accumulating unlimited personal wealth. In the name of freedom, Milton Friedman in his book *Capitalism and Freedom* makes profit and democracy even. Consistently, he says: "Therefore it is best to restrict governments to the job of protecting private property and enforcing contracts, and to limit political debate to minor issues. The real matters of resource production and distribution and social organization should be determined by market forces."⁷ The Chicago school of economics led by Friedman not only influenced the deregulation in the US, but also a deregulation in the area of financial reporting. Precisely, the process was named the accounting profession's self-regulation.

The accounting profession's self-regulation assured that the private foundation called the International Accounting Standards Committee, for the purpose of improving the quality of financial reporting, imposed on other countries the concept of fair value taken from US GAAP. When it became clear that the self-regulation in the US in the area of accounting and auditing resulted in financial-accounting scandals such as Enron, the state had to respond by placing the accounting and audit profession under the scrutiny of the public.

This was carried out in the US in 2002 through adoption of the Sarbanes-Oxley Act. In the European Union, the authorities also acknowledged the consequences of the de-

⁵ Miloš Todorović: "Globalna ravnoteža", Ekonomski fakultet Niš, Niš, 2007, p. 56

⁶ Miloš Todorović: op.cit, p. 56

⁷ Miloš Todorović: op.cit. p. 57.

regulation in this area and the Eight Directive introduced the strict regulation in member countries.

The world financial and economic crisis revealed that total deregulation as an important feature of neo-liberal concept of global capitalism cost the world dearly. Because of the unsuccessful self-regulation, the accounting and audit profession has lost the reputation build over the decades.

c) The first signals that pointed to serious defects of a neoliberal concept of capitalism were seen in the financial markets and real estate market in the US. At the global level, there were many crises that challenged this leading economic paradigm (the Asian crisis, Russian crisis, Chilean crisis, etc). However, one of the main features of Anglo-Saxon capitalism of the last decade of the 21st century was the resistance of its promoters to the warnings. This is understandable considering that the issue was treated as a purely ideological and not an economic one. The Berlin Wall fell and post-socialist countries set to build the society in compliance with the neo-liberal view of democracy and economy. At that time, the Soviet Union disintegrated and through the use of the shock therapy advised by Jeffrey Sachs Russia faced the economic collapse.

Even the traditional Japan turned to neo-liberalism. One should also mention some EU countries that succumbed to the temptations involving huge profits of corporations and economic growth that the concept promised.

For the US the issue of the prestige of a neoliberal concept of capitalism and democracy remained an ideological one. Understanding political conditions under which it developed facilitates the identifying of the resistance to warning signals in the market as an important feature of the concept.

Any serious critique was denoted as the promotion of communist ideas and a call for class conflicts in the US. Anti-globalists were denounced as opponents of economically efficient development throughout the world. Environmental protection movements were accused of exaggerating the ecological problems.

The resistance of the promoters of neoliberal Anglo-Saxon global capitalism to warning signals from the market as its important feature had, apart from numerous negative consequences in many areas of life, also consequences for fair value accounting. This involves the resistance of the concept of fair value to all the warnings that its application can seriously challenge the quality of financial reporting. For an instance, in March 2004, the International Accounting Standards Committee "became aware that some, including sober supervisors of insurance companies, companies for issuing securities worried that the option of fair value would be used inadequately"⁸. The members are worried that the entities could define fair value in a subjective manner that would inadequately influence the financial result. It concerns the conceptual remarks related to fair value accounting made by respectable stakeholders to which the Committee remained resistant. "The committee did not examine the fundamental approach to accounting scope of financial instruments that are included in IAS"⁹. As many times before, the Committee replied to essen-

⁸ Medjunarodni standardi finansijskog izveštavanja (IFRS), SRRS, Beograd, knjiga II p. 631

⁹ Medjunarodni standardi finansijskog izveštavanja (IFRS), op.cit. p. 631

tial remarks related to fair value accounting by making minor changes, which have increased over the years.

d) Neoliberal doctrine of capitalism and democracy has been propagated as a universal value that offers solutions to the challenges facing the contemporary world. Political elite of some countries has tried to turn their countries into welfare states by imitating US political and economic system. Their voters should give an answer whether they have succeeded. However, a worrying issue involves the export of the model i.e. the use of all modes of force in the last two decades in order to impose it where it is not wanted. The pressure is used by the US and the NATO allays, but also by global corporations. The Gulf War and the war in Afghanistan are the expression of striving to impose the absolute control over oil exploitation in this area by means of military force. At the same time, they are the drivers of military and related industries. The background of the military intervention in Iraq is now evident since many documents have been found revealing that Iraq did not represent the threat to the world peace. Democratic elections held in September of the current year in Afghanistan were a mere farce.¹⁰ There can be no democratic elections in the occupied country, subject to military operations. Global corporations have such a financial power to realize their aims through the pressure on the countries that do not want their presence. "The extreme example is Chile from the beginning of the 1970s of the 20th century, when the US multinational company ITT that invested in Chilean post network influenced the downfall of Alende's democratic system and brought Pinochet's dictatorship"¹¹. Various modes of force were used for the purpose of imposing a universal model.

This feature of neoliberal doctrine is expressed in various forms of life, even in imposing fair value accounting through IFRS in the countries that have different economic systems from the US. The greatest opposition was that in the EU, whose organs were against the application of IAS 39 in the Union. "Even the European Central Bank joined (the efforts-M.S.), as it expressed worry about the possible instability of the European banking activity if the standard was to be implemented."¹² However, further developments in the EU when it comes to IAS 39 revealed that it was accepted for the application in the EU with some minor alterations". Under the pressure of lobbying by interest groups, the EU (ARC) decided at the end of 2004 to accept IAS 39 completely."¹³ In other words, it can be said that this standard in a shorter version has been imposed on the EU, despite the systematical and argueded opposition of relevant regulatory bodies.

2. IMPORTANT FEATURES OF ECONOMIC TRANSACTIONS AND CATEGORIES THAT ARE RECOGNIZED AND ASSESSED ACCORDING TO FAIR VALUE

In the last decade of the 20th century and in the first decade of the 21st century, some business transactions and economic categories were created that consequently led to fair value accounting. Although this concerns heterogeneous developments related to various

¹⁰ New evidence has been published in the memoirs by Tony Blair

¹¹ Miloš Todorović: op. cit. p. 66.

¹² Željko Šević: op.cit. p. 11.

¹³ Željko Šević: op.cit- p. 11

modes of property, duties and own capital, it is possible to identify some important common features. They are many, but from the aim and subject perspective of the paper, the most important are the following characteristics:

- 1) Participants in these transactions and owners of these categories (financial derivatives, hybrid securities, investment real estate, etc) want to make high profit rates quarterly,
- 2) They are aware of speculating character of the activities they perform,
- 3) They want to minimize and even eliminate the risk stemming from their intentions and manner in which they realize them,
- 4) They are oriented towards making the profit in a short run and,
- 5) Transactions they participate in and manner of their accounting scope are complex.

1) Creating high profit rates from quarter to quarter is an imperative imposed on the management of contemporary corporations, not only in the US, but also in the world. Otherwise, sanctions will be widely imposed ranging from lack of high bonuses to let offs. It is the same for corporations if they are viewed as special business and legal entities in compliance with the theory of entities. Revelation of the data in financial statements pointing to the reduction of earning capability from quarter to quarter generates the chain of negative responses by all stakeholders ranging from shareholders through potential investors, buyers and suppliers to creditors and other insurers.

Demand for continual realization of high profit rates as a positive incentive for corporate management and corporations as business and legal entities opposed the economic reality characterized by alternate periods of conjecture and stagnation. On the other hand, potential sanctions in the case of lack or reduction of profits will have long term negative consequences on corporate management and corporation. In such a business environment, i.e. economic system, managers started to search for continual gain resources in speculative business among else. These businesses in the financial markets and real estate markets in the situation of inflating the price of securities enabled, under condition of being registered according to fair value, quick, i.e. quarterly expression and distribution of unrealized profit.

2) Speculative business in the securities market has been declared advisable and the participants designated as speculators. "The market not only comprises investors buying shares in order to earn in the second and intermediate term but also speculators. The speculators are important for the market for the dynamics and improvement of general liquidity in the stock exchange"¹⁴. Inclusion of speculators in the financial market and high earnings made through certain speculative transactions triggered off the inclusion of numerous other business entities. Thus, apart from investment funds, banks, insurance companies, numerous production, trade and service corporations began to perform the activities in greater scope instead of investing accumulation and loaned capital in basic activity. It is understandable that the participants in speculative transactions of that rank (corporate management of global entities, stock exchange participants, regulators of fi-

¹⁴ Dati prostor špekulantima kako bi se popravila likvidnost", interview with Pavle Gegaj director of broker firm "Bull & Bear" iz Podgorice, "Vijesti", 13.9.2010, Podgorica, p. 5

nancial markets, institutional investors and management of global banks) were aware of the negative consequences stemming from these hazardous i.e. high risk activities. Fair value accounting accompanies speculative transactions, because traditional accounting does not allow recognition and distribution of unrealized gain, without which speculative actions would not be that advisable for those involved.

3) Aware of a high risk they are involved in, the actors of speculative transactions started to contrive to minimize or eliminate it. The new transactions embodied in hedging operations (protection from risk by means of derivative financial instruments) were formed. Even the Anglo-Saxon countries developed new scientific disciplines dedicated to risk management and in the area of fair value accounting the concept of hedge accounting was promoted. The promoters of hedging operations argued " that in a perfectly correlated hedging transaction, losses and gains on derivate instruments would be compensated by losses or gains in hedging item by making the final effect of the transaction on profit and loss statement null. However, if hedging is not perfectly correlated, then any difference between derivate gain and hedging loss would be directly included in profit and loss statement of the current period. This means that the stability of the results of accounting period viewed from the enterprise level as a whole secures perfectly structured hedging relationship, ..." ¹⁵ Since the reality of life including economic reality knows no perfect relationships, risks are unavoidable as proved by the world financial and economic crisis, but the stability of the current financial result is jeopardized. Fair value accounting including hedge accounting has deny itself in banks and other financial institutions joined by the same interests. Namely, "a problem emerged for joined financial institutions (in which theoretically exists a null profit function because of mutual ownership) in which some part of their owners' capital can be transferred to obligations, when their members decide to revoke the money." ¹⁶ In short, all efforts to minimize or eliminate risk by means of information of fair value accounting did not give results.

4) Speculative investment of cash into securities is by nature of a short term character. Short term orientation towards profit stemming from financial transactions puts away management of corporations from mid term and long term aims. Numerous measures undertaken after the crash of financial markets by international, regional and national regulatory bodies point to the crisis of corporate management and that the solutions are sought in terms of responsible corporate management that will be interested for survival, growth and development of corporations in the long run. In other words, "the structure of global economy was based on the concept of short-term balance of financial markets. In order to avoid the crisis of this kind, a conceptual change of global financial system must encompass mid term and long term sustainability" ¹⁷.

¹⁵ Goranka Knežević: Izveštavanje o finansijskim derivatima u funkciji unapredjenja kvaliteta računovodstvenih informacija, Zbornik radova sa XXXVII simpozijum SRRS, SRRS, Zlatibor, 2006, p. 223

¹⁶ Željko Šević: Unapredjenje finansijskog izveštavanja na putu u ka Evropskoj uniji, Zbornik radova sa XXXIX simpozijuma SRRS, SRRS, Zlatibor, 2008, p. 11

¹⁷ Hastiba Hrustić. Deregulativa kao uzrok svetske finansijske krize, "Računovodstvo" br. 5-6/2009-. SRRS, Beograd, p. 147

Considering that fair value accounting is conceptually oriented towards a short term, being as it is now it is part of the problem not a part of the solution.

5) The process of creating new economic transactions and categories, especially the so-called financial engineering resulted in complex and complicated financial transaction. It is understandable that their way of recognition and weighing must be in compliance with their essence i.e. a complex and complicated. In order to be assured, a reader with average knowledge of economics and mathematics should read through 304 pages of the translation of IAS 39 issued by the Serbian Association of Accountants and Auditors.

"George Soros emphasizes that the super-boom had dim prospects when new financial products became so complicated that the authorities were not able to calculate risk and began to rely on the method of risk management used by banks. Similarly, agencies for value assessment depended on the information received by the creators of artificial property value"¹⁸. When the investor of Soros' rank argues that new financial instruments became too much complicated, there is no reason to doubt the validity of his statement. Hence, fair value accounting as a reflection of complex, incomprehensible and complicated business transactions created through financial engineering according to "what if" principle is complicated. Namely, it concerns accounting called in literature a priori (ex ante) accounting since it registers the effects of future transactions at present, which is complicated for understanding, with no easy solutions for recognition and measurement in financial statements. Namely, by combining the effects of transactions that happened and effects of future transactions through a financial statement (balance sheet) is a confusing concept to start with.

PROSPECTS OF FAIR VALUE ACCOUNTING

The objective of the aforementioned has been to identify some important features of neoliberal model of Anglo-Saxon capitalism and those that are consequently connected to the emergence and development of fair value accounting. Also, some fundamental characteristics common to a number of new economic and financial transactions and categories have been pointed out. They determined the form and content of financial reporting according to fair value. The great world financial and economic crisis incited the examination of fundamental postulates of fair value accounting and this could not be possible if viewed isolated from economic and system environment it stemmed from. Consistently, even the prospects of fair value accounting must be viewed in the context of the future development of a neoliberal model of capitalism.

The measures undertaken in the US, the EU, at national economies level (UK, France, Germany, Japan, China and Russia) and at the global level (G20, MMF, UN etc) point to the following direction of revival: injecting money into the financial sector— incentive influence on credit consumption —increase in production based on increase in demand and stabilization of financial markets. The history of economic thought and economic history teaches us that the sequence of events will be the same as in the great crisis during 1929-

¹⁸ George Soros: The word market crisis in 60 years, The Financial Times, January, 2008, (dr Hastiba Hrustić – op.cit. p. b135)

1933. We can expect the same kind of neo-Keynesian economic policy in crisis-stricken countries adjusted to the present crisis and under conditions of global economy.

When considering this scenario one should have in mind the development possibilities of global capitalism that have not been reached by globalization, technological revolution that is in progress, new profitable resources such as drinking water etc). The model of Anglo-Saxon capitalism should have an equal rival as well. Namely, global corporations have erased the clear differences between Anglo-Saxon, Scandinavian and Japanese capitalism. Russia has no build economic and system solutions and those emerging represent the Russian version of neoliberal model. China has no intention to export its model, which is not applicable to the rest of the world at that.

This only means that capitalism is very vital when it comes to the crisis and that at this stage of socio-economic development, the solutions are being sought for its overcoming in the manner that does not change the essence of this stadium of capitalism.

"Consequently, as far as 2025, the richest people in the world and major central banks will view the US and US dollar as the best economic, political and financial refuge"¹⁹. If these forecasts are accepted, acknowledging the accompanying argumentation, then it is possible to project these prospects of fair value accounting. It will, in my opinion, develop in the following manner:

- a. FASB and ISAB will execute certain modifications of fair value accounting in the manner done before, i.e. not challenging its founding presumptions,
- b. Alterations and amendments in the US GAPP and IAS/IFRS will be a continual process, especially when it comes to standards regulating this issue,
- c. Challenges of fair value accounting will be greater and established on the facts, i.e. shortcomings registered in the financial markets and real economic sector,
- d. In fifty years, when a new economic system is to be formed, fair value accounting jointly with Anglo-Saxon model of capitalism will enter economic history books.

a. During the last two decades, FASB and IASB have permanently modified fair value accounting. The number of alterations and amendments has been so large challenging the comparability of financial statements of general purpose in time succession. However, the analysis of undertaken improvements of fair value accounting point to the fact that its founding postulations have not been challenged once. This is explained by high resistance of a neoliberal model of capitalism to warning signals from the financial market. Considering that the current world financial and economic crisis has not been a sufficient enough warning for the promoters of fair value accounting and that the demands of respectable stakeholders for its prompt abolition have not been accepted, it can be presumed that this accounting received a major blow in its two decade history. Practically, the ongoing modifications of US GAAP and IAS/IFRS will be directed towards their reformation without challenging fundamental premises of fair value accounting.

b. Alterations and amendments in US GAAP and IAS/IFRS will be a continuous process, especially when it comes to the standards regulating this issue. The prior experience

¹⁹ Žak Atali: *Kratka istorija budućnosti*, Politika, 24.9.2010, p. 36

is outlined shortly and in chronological order in the Introduction to IAS 39. Translated into the numbers, it points to 12 alterations and amendments of standards from 1992 to 2005. The newest ones involve those to be applied during composing financial statements of general purpose for 2010. This trend will continue in the coming decade. Namely, fair value accounting has numerous restrictive inherent limitations elaborated in professional literature. The contriving process directed towards mitigating the same is unavoidable in the future.

c. Challenges of fair value accounting will be greater and grounded on new facts, i.e. shortcomings that will be evident in the financial markets and in real economic sector. In the same way the current financial crisis offered empirical evidence for scientifically grounded critique of fair value accounting, the forthcoming crises in the financial markets provided opponents of the controversial concept of accounting with new arguments. The crises in the US (the 2000 Internet crisis, the crisis in the securities market in 2007, the crash of financial markets in 2008) as well as at the global level (Asian crisis, Russian crisis, Chilean crisis, the great world crisis) reveal that the theory of tamed economic cycles immanent to capitalism represents only a theoretical construction of some contemporary economic schools of thought. Moreover, the current crisis in Greece raises many questions related to this issue. The state of numerous post-socialist countries including Serbia examined against all the important economic parameters (growth of budget deficit, growth of unemployment, low production and export level) has indicated the state of great crises even before the world economic crisis. Delusion that the post-socialist crisis reflected the crises in most developed countries of the world can serve the governments of these countries as an excuse before the voters for unsuccessful transition. Namely, twenty years after the fall of the Berlin Wall, we are facing the great post-socialist crisis. To conclude, the experience resulting from the forthcoming crises will be the foundation for the factual detecting of the shortcomings of fair value accounting.

d. In fifty years, when a new economic system is to be formed, fair value accounting will together with the Anglo-Saxon model of capitalism reach its end. The current economic crisis represents the beginning of the end of capitalism as a stage in the socio-economic development. It is a century old process that will end in the mid of the millennium. It is a historical inevitability, the same that followed its beginning, rise, peak of the development i.e. its golden age, frequent crises and end of slavery and feudalism. "One day, in thirty or more years –this ninth form of capitalism as well as the previous eight will reach its limit: The very market will turn against the Trade Center (US-M.S.): new technologies will launch another World Center, more dynamic in ideological, military and cultural sense for a new project"²⁰. Consequently, the answer to the question stated in the article's title ("fair value accounting –the beginning of the end") is: in the context of prior experience and from the perspective of the realistic scenario of social and economic developments in the following five decades, 12th September can signify the beginning of the end of fair value accounting.

²⁰ Žak Atali: *Kratka istorija budućnosti*, op. cit. p. 36

The optimism, characteristic of the scenario concerning further development of Anglo-Saxon capitalism (peaceful shift to other modes of socio-economic establishment), is the result of exclusion of military conflicts of wider scope from the projection. Namely, one of the eminent macroeconomists George Perry, Brookings Institution, wrote following the Gulf War in 1990-" Wars suit the US economy. Traditionally, they bring with them rising output, low unemployment and full use of industrial capacities as military demands add to normal economic activity." In the projection of future development of neoliberal concept of capitalism in the following fifty years I have excluded these viewpoints because they lead in the long run to military conflicts across the world. Also, I have excluded as unrealistic the option that neo-liberal ideology will make the economic-political system uniform at the global level since so far none of the ideologies succeeded in doing that. The aforementioned points to the conclusion that the extreme scenarios such as "war against economic expansion" "one planet-one system" have been excluded from the long term perspectives of the neoliberal model of Anglo-Saxon capitalism and fair value accounting.

CONCLUSION

Fair value accounting emerged and developed in the last two decades under the wing of Anglo-Saxon capitalism in the US. It was inaugurated through IAS/IFRS in the countries across the world, in which financial statements are made in compliance with the standards. Until 12th September 2008, when the crash of US stock markets drag the whole world into great financial and economic crisis, the critics of this model of accounting could not register through empirical data their argumentations. New arguments based on century long experience in the application of caution principle, imparity principle, the principle of the creation of business event and dynamic comprehension of the main purpose of balances have been easily denounced as old fashioned and inadequate for the contemporary conditions of business activity. Moves made by global, regional and national regulatory bodies after the crash of financial markets in the area of financial reporting proved that the warnings of the opponents of fair value accounting were timely and just. This can be confirmed by the fact that a large number of respectable stakeholders called for prompt abolition of fair value accounting in September 2008. Instead of adopting this demand, the creators of fair value accounting made a step further. Namely, the alterations of IAS/IFRS made possible for unrealized gain not to be expressed in financial statements, but to be postponed for the next year, which is a nonsense of the concept (presenting unrealized gain –possibility of postponing realized gain). These events were the reason for examination of fundamental assumptions of fair value accounting and their consequences in the economic life.

Starting with fact that fair value accounting is not a result of scientific research activity in the area of financial reporting, but a product of neoliberal Anglo-Saxon model of capitalism and its consistent application in the financial markets and real estate markets, when assessing the scope of fair value accounting, one should have in mind the following important features of this socio-economic model:

- The fundamental maxim of US and other global corporations is a continuous and rapid (quarterly) growth of profit, regardless of the manner in which its is realized (economic Machiavellism, Darwinism),
 - Liberalization i.e. deregulation of regulatory framework in all economic areas,
 - Resistance to warning signals from the market in the US and across the world,
 - Imposing neoliberal system of economic activity and democracy to the whole world as a universal model. From this feature stemmed the fundamental characteristics of fair value accounting such as: the use of it for quarterly increase in profit through unrealized gain, resistance to warning signals in terms of the quality of financial reporting and imposition of fair value accounting through IAS/IFRS on the countries, where there are no elementary conditions for its application.

New economic-financial transactions and categories stemming as a result of neoliberal concept of capitalism such as investment in derivative and hybrid securities, investment in investment real estate, hedging operations also have their features reflecting on fair value accounting:

- The result are efforts to make high profit rates in the financial markets and real estate markets, outside the fundamental activity of many corporations,
- Participants in these transactions and owners of these categories are aware of speculative character of activities they deal with,
- They want to eliminate risk from speculative business involving high risk, by creating permanently new financial instruments and transactions,
- Thus, the focus of their managerial activities is short-term oriented,
- Transactions they deal with are complex and complicated. In the same way the characteristics of neoliberal model of capitalism modeled the shape and content of fair value accounting, new economic and financial transactions and categories influenced fair value accounting. Not only did it become a neutral register of business events and transactions, but also the unreliable source of information for decision making.

The world economic and financial crisis which is still in progress is the most important event in the history of the new millennium. In my opinion, it marked the beginning of the end of neoliberal Anglo-Saxon model of capitalism and thus, the beginning of the end of fair value accounting. This suggests the process that will last at least fifty years, only if the presumptions supporting the scenario of the future prove realistic.

REFERENCES

1. Goranka Knežević: "Izveštavanje o finansijskim derivatima u funkciji unapredjenja kvaliteta računovodstvenih informacija", Zbornik radova sa XXXVII simpozijuma SRRS, SRRS, Zlatibor, 2006.
2. Kata škarić Jovanović: "Finansijska kriza – povod za preispitivanje osnova vrednovanja u finansijskim izveštajima", Zbornik radova sa XL simpozijuma SRRS, SRRS, Zlatibor, 2009.
3. Miloš Todorović: "Globalna ravnoteža", Ekonomski fakultet u Nišu, Niš, 2007.
4. Goranka Knežević: "Izazovi vrednovanja finansijskih instrumenata u uslovima finansijske krize", Zbornik radova sa XL simpozijuma SRRS, SRRS, Zlatibor, 2009.
5. Željko Šević: "Unapredjenje finansijskog izveštavanja na putu ka Evropskoj Uniji", Zbornik radova sa simpozijuma SRRS, SRRS, Zlatibor, 2008.
6. Hastiba Hrustić: "Deregulativa kao uzrok svetske finansijske krize", "Računovodstvo", br. 5-6/2009. Beograd.
7. George Soros: "The word market crises in 60 years", The Financial Times, January, 2008.
8. Žak Atali: "Kratka istorija budućnosti", "Arhipelag", Beograd, 2010.

9. Vladan Pavlović, mr Isidora Ljumović: "Finansijska regulativa kao pokretač aktuelne svetske krize", "Računovodstvo" br. 5-6/2009, SRRS, Beograd, 2009.
10. "Dati prostor špekulantima kako bi se popravila likvidnost", intervju sa Pavlom Gegajem, direktorom brokersko-dilerske firme "Bull&Bear", "Vijesti", 13.9.2010. Podgorica
11. "Medjunarodni standardi finansijskog izveštavanja (IFRS)", SRRS, 2007., Beograd.

RAČUNOVODSTVO FER VREDNOSTI – POČETAK KRAJA?

Milorad Stojilković

Dvanaestog septembra 2008. godine desio se slom finansijskih tržišta u SAD i difuzno proširio na finansijska tržišta širom sveta. Finansijski instrumenti mnogih globalnih korporacija koji su bili procenjeni po fer vrednosti postali su u tom trenutku bezvredni papiri. Brojni respektabilni stejkholderi su, u danima koji su usledili, zahtevali ukidanje računovodstva fer vrednost, kao promptnoj meri za zaštitu finansijskih tržišta i bankarskog sistema. Navedeni događaji su otvorili pitanje perspektive koncepta fer vrednosti. S tim u vezi, autor u radu razmatra neka relevantna pitanja, od interesa za sagledavanje budućnosti ovog kontroverznog koncepta.

Ključne reči: neoliberalni model kapitalizma, finansijska kriza, finansijska tržišta, računovodstvo fer vrednosti