

Alert

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Survey Finds Perceptions of Fair Value Hit Hard by Financial Crisis

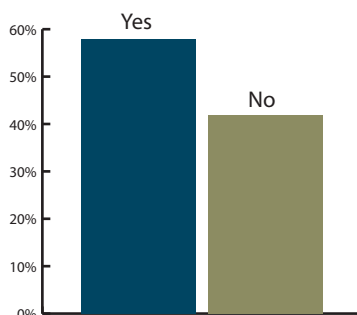
A recent survey by VRC of financial professionals’ views on Fair Value Accounting (FVA) showed little confidence in FVA. A majority believe that market turmoil and the collapse of active markets for many assets caused implementation issues in FVA.

Respondents came down hard on Fair Value, with many even supporting a return to historical accounting. On the question of whether FVA is beneficial, the answer was, at best, mixed:

FVA has caused more problems than benefits	47.5%
FVA has merit and is about right	52.4%

And when asked if the collapse of active markets for many assets has caused FVA to essentially become unsupportable, the response was clear:

Yes, market turmoil negates FVA validity	58%
No, market turmoil does not negate FVA validity	42%



Of those 58% who said that FVA was flawed, many indicated that they would prefer a return to historical cost accounting; i.e. a two-year moratorium on fair value:

Yes – Revert to Historical Cost Accounting	33.8%
No Reversion	37.9%
No Response	28.2%

UNCERTAINTY ABOUT BANK VALUATIONS AND FUND VALUATIONS

Survey respondents are unsure about the capability of publicly traded banks to reasonably estimate their own level 3 assets - assets that are not publicly traded and don't have easily accessible values. A full 44% believed the bank values were within an accuracy of 10% and another 40% thought those values were as much as 30% off. Only 3% believed bank reported values are within 3% of an accurate value, while another 12% thought the accuracy was within 5%.

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“A full 49% thought level 3 values can be off by as much as 30%.”

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Respondents believed the accuracy of hedge fund and private equity valuations of level 3 assets, determined by the funds themselves, were even further off the mark. Thirty-six percent believed hedge fund and private equity values were only within an accuracy of 10% and a full 49% thought those values were as much as 30% off.

When asked if mark-to-market should be suspended for the determination of bank regulatory capital, (regardless of any fair value treatment for public financial reporting) there was an exact 50-50 split:

FV should be suspended for regulatory capital	50.0%
FV should not be suspended for regulatory capital	50.0%

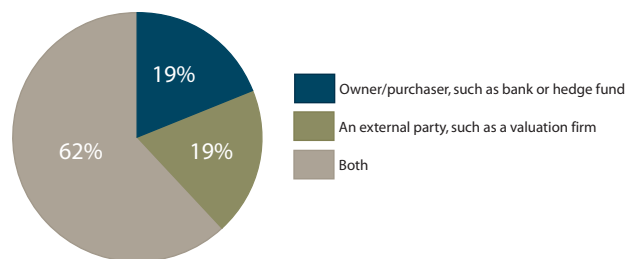
AUDIT REVIEWS

Many have revised their financial projections due to auditor skepticism. Of the 30% who revised projections, 14.5% specified it was for fair value estimates (FAS 157), 9.6% needed to change purchase allocation projections for FAS 141 purposes, and 19.3% needed to revise goodwill impairment (FAS 142) projections.

Respondents were also asked about the fees that their external auditors charged to review a valuation, versus the valuation fee itself:

Audit review fee is the same as or more than the valuation fee	35.5%
Audit review fee is less than the valuation fee	64.5%

Survey participants also opined on who provides the best valuation of level 3 assets. Nearly 62% thought that the owner/purchaser working together with an external valuation firm provided the best valuation. The responses broke down as follows:



The survey was completed by professionals from public accounting, investment banking, private equity, hedge fund, insurance, law, real estate, consulting, valuation, and fund administration firms. For more information contact your VRC representative. **VR**

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