

The History of the Fair Value Term and its Measurements

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Abstract:

This chapter explores the lack of a unified theory of valuation in accounting standards related to fair value accounting and in particular the 2011 International Accounting Standards Board's (IASB) Fair Value Measurement. Fair value measurements should ideally be based on level 1 inputs, as these are deemed the most reliable in the fair value hierarchy. When level 1 inputs are unavailable, the Financial Accounting Standards Board/IASB state that fair value measurements should ideally be based on level 2 inputs. When both level 1 and 2 inputs are unavailable, fair value measurements should be based on level 3 inputs. These are composed of unobservable inputs that act as proxies for the current exit price of assets held or liabilities owed. The emergence of the fair value term in legal proceedings regarding public utilities in the late 1890s, and the adoption of the term by accounting standard-setters in the 1980s has produced a rather precarious situation.