I would like to use my few minutes to highlight the general inferences that I believe can be drawn from the academic literature on fair value accounting for financial instruments held by financial institutions.

Note that these inferences are based on findings from studies that examine averages, meaning that the studies address the average firm or average investor. Below each comment, I include the citations of the most prominent work in the area that I relied on in drawing my inferences.

First, and foremost, the research suggests that investors use fair values in making firm valuation decisions.  


They also appear to consider the reliability of the fair value estimates. Investors respond more strongly to fair values of assets that are traded in deep liquid markets than to fair values of other assets such as level 2 and level 3 assets.


Yes, managers will apply discretion in their fair value estimates but this behavior can be reduced by quality monitoring from such groups as the audit committee, auditors, and appraisers.


A full fair value model would limit the opportunities for cherry picking which exist under a mixed attribute model.


Under a mixed attribute model, managers apply discretion in determining which assets are reported at fair value and which are reported at historical cost.


Under a full fair value model, income reflects elements of risk that are currently not captured by the performance measures reported under the mixed attribute model that we currently rely on.


Disclosure of fair values is not equivalent to the recognition of fair values. Results suggest that even experienced bank analysts will not fully incorporate fair value information disclosed in footnotes when assessing bank risk.


Lastly, there is evidence that recognizing liabilities at fair value, which appears counter-intuitive to some, is actually representationally faithful.