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Nota di contenuto	<p>Contents; I. Introduction; II. Fair Value Accounting Through the Business Cycle; A. Fair Value Accounting And Its Application; 1. Selected U.S. Based Financial Institutions: Change in Level 1, 2, and 3 Assets; 2. Aggregate Fair Value Hierarchy, End-2007; III. Modeling FVA through the business cycle using simulations; A. Data and Modeling Assumptions; Tables; 1. Balance Sheet Representative U.S. And European Financial Institutions; 2. Parameter Values for Each Simulation; B. Simulation Results; 3. Equity-to-Assets Ratio Through The Business Cycle</p> <p>4. Application of Fair Value by U.S. And European Banks, 2007 Figures; IV. Conclusions and Policy Recommendations; Policy proposals; 3. Simulation Of Full Fair Value; 4. Simulation Of Full Fair Value: Changes In Funding Conditions And Financial Market Distress; 5. Simulation Of Full Fair Value: International versus Retail-Oriented Banks; 6. Simulation Of Partial Fair Value; 7. Simulation Of Smoothing Techniques; 8. Yield Curves and Business Cycles; 9. Simulation Of Full Fair Value With Upward Sloping Yield Curve; V. References</p>
Sommario/riassunto	<p>In light of the uncertainties about valuation highlighted by the 2007-2008 market turbulence, this paper provides an empirical examination of the potential procyclicality that fair value accounting (FVA) could introduce in bank balance sheets. The paper finds that, while weaknesses in the FVA methodology may introduce unintended procyclicality, it is still the preferred framework for financial institutions. It concludes that capital buffers, forward-looking provisioning, and more refined disclosures can mitigate the procyclicality of FVA. Going forward, the valuation approaches for accounting, prudential measures, and risk management need to be reconciled and will require adjustments on the part of all parties.</p>