Correspondence to IFRS Introduction and Fair Value Valuation

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Substance of the paper

The overconfidence of market participants to valuation modeling amplified the financial crisis. In the situation that the width of the accounting estimate exceeds the rational tolerance level and induces significant variance by the difference of valuation models, the reliability or verifiability of financial statements is lost and the neutrality which satisfies the requirements for the faithful representation is not guaranteed. If immature model valuation classification is identified among level 3 of the fair value hierarchy (it will be referred to as "level 4"), unless a complementary additional formula is agreed, the historical cost measurement basis should be adopted and the expansion of explanatory notes should contribute to decision usefulness. There is an anxiety that a legal liability will be imposed on managers and auditors concerning the validity of accounting estimates with IFRS introduction. It is necessary to draw a sharp line between the part which entrusts it to individual correspondence by the person concerned and the part which should aim at institutional correspondence by accounting standards, guidance, etc. About the former problem, the importance of internal control in discretionary judgment of accounting estimates will increase much more. In addition, as one of the viewpoint contributing to the correspondence of the latter problem, it is thought that level 4 concept can be useful. But more clarification of the concept concerning "the minimum reliance level in accounting measurement" to mark level 3 and level 4 is left for future subject.