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Perspective

Assessing Volatility: Fair Value Accounting in Post-COVID Financial Reporting

Helena Straub*

Department of Financial Accounting, Northlake University, Munich, Germany

DESCRIPTION

The COVID-19 pandemic created widespread disruptions in global markets, affecting business operations, consumer behavior, and the valuation of assets across nearly all sectors. As firms adjusted to fluctuating economic conditions, the relevance and application of fair value accounting came under renewed attention. Financial statements prepared during and after the pandemic reflect the impact of market volatility on reported values, prompting questions about how fair value measurements influenced investor perceptions and managerial decision-making.

Fair value accounting requires that certain assets and liabilities be measured based on current market conditions, rather than historical cost. This approach is intended to provide users of financial statements with a more timely view of an entity's financial position. However, during periods of economic instability, the reliability and comparability of such valuations can be difficult to maintain. In post-COVID reports, many firms had to revise their assumptions, reconsider valuation models, and navigate markets where active trading had slowed or even ceased altogether.

One of the main difficulties during the post-COVID recovery period was determining whether market prices reflected actual economic fundamentals or were distorted by short-term panic, speculative behavior, or reduced liquidity. In such cases, identifying inputs for valuation models became more complex. The use of observable prices, which is preferred under fair value measurement frameworks such as IFRS 13 and ASC 820, was often limited. This led to a greater reliance on level 2 and level 3 inputs, which involve significant estimates and adjustments by management.

Companies with significant holdings in investment properties, financial instruments, or biological assets were particularly affected. For instance, real estate firms faced difficulties in estimating the market value of properties when transactions were limited or postponed. Financial institutions with exposure to securities also had to adjust valuations to reflect widened credit spreads and changes in expected cash flows. These adjustments were subject to judgment, making disclosures about valuation methods even more important.

Transparency became a key consideration in how users evaluated financial statements during this period. Many companies increased the volume and detail of their disclosures regarding fair value assumptions, valuation techniques, and sensitivity analyses. This was especially true for firms operating in sectors such as travel, retail, and hospitality, where asset values were more volatile. The additional disclosures allowed users to better understand how management assessed market conditions and whether those assessments remained consistent over time.

The pandemic also highlighted the importance of internal controls over valuation processes. With much of the workforce operating remotely, firms had to adjust procedures to maintain accuracy and oversight in financial reporting. Independent valuations, model validations, and audit reviews had to be conducted under new working arrangements, adding to the complexity of reporting fair value figures. Despite these hurdles, financial reporting deadlines remained largely unchanged, putting pressure on finance departments to deliver accurate and timely reports under exceptional conditions.

One noticeable trend in post-COVID statements was the increase in fair value-related impairments, especially during the 2020 and 2021 reporting periods. Companies holding goodwill, intangible assets, or long-term investments were required to test these items for impairment when indicators of reduced value were present. In many cases, the uncertainty surrounding future cash flows led to write-downs that had significant effects on earnings. Analysts and investors paid close attention to these figures, interpreting them as signals of how deeply firms had been affected by the crisis and how quickly they might recover.

The use of fair value also influenced performance indicators such as earnings per share and return on assets, especially when unrealized losses were recognized in profit or loss. Some critics argue that this created volatility that did not accurately reflect long-term performance. Others believe that fair value adjustments provided timely insights into the changing

Correspondence to: Helena Straub, Department of Financial Accounting, Northlake University, Munich, Germany, E-mail: helena.straub@northlakeuni.ge

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economic conditions and forced companies to confront asset devaluations sooner rather than later.

Standard-setting bodies did not revise fair value guidance in response to the pandemic, but they did issue clarifications and guidance to assist preparers in applying existing rules. These included reminders about the use of judgement, the need for consistent assumptions, and the importance of adequate disclosure. In this context, auditors also played a larger role in evaluating the reasonableness of fair value estimates, often requiring additional documentation and management explanation.

Looking ahead, the experience of the pandemic has raised broader questions about the role of fair value accounting during crises. While it can provide more timely data, its dependence on market inputs and assumptions can also amplify uncertainty. Companies and regulators continue to evaluate how fair value measurements influence decision-making and whether current frameworks provide a balanced view of financial health during uncertain times.

The post-COVID reporting period provides a rich source of evidence on how fair value accounting performs under pressure. By reviewing financial statements issued during this time, it becomes clear that while fair value offers relevant data, its effectiveness depends on careful application, transparent disclosure, and informed judgement. As financial markets continue to evolve, so too will the practices that shape how value is reported.