

study to address 'fair value' urged

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Academics call for reassessment in view of economic crisis

A group of academics have suggested that Thailand form a professional study team to address the issue of fair-value or mark-to-market accounting in the wake of the global financial crisis.

[Pongsak Hoontrakul](#), a senior research fellow at Bangkok's Sasin graduate school, said the study team should consist of accountants, practitioners from industries, politicians, academics and lawyers, among others.

He warned that the crisis could result in the destruction of the balance sheets of listed and unlisted firms in Thailand due to the recent turmoil in the global financial and capital markets.

"A number of announcements in relation to the fair-value measurements under international accounting standards have been publicly released [by several countries, including the US, European Union and Japan]," said a preliminary paper written by [Taka Fujoka](#), [Seiara Seko](#) and [Pongsak](#).

The preliminary paper is titled "The State of Fair Value Measurement, Global Financial Crisis and Implications to Thailand".

The authors said: "In the present situation where markets collapse and price inputs are not readily available, the market value of certain financial assets is

not the only relevant criterion and does not always allow for a proper assessment of companies' financial position and results.

"Furthermore, fair-value measurement of certain financial instruments, whose changes in value can affect earnings or capital, raises major practical problems for preparers and users of financial statements as well as for statutory auditors.

"Accordingly, the authorities have taken note of the joint statement issued on September 30 by the US Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB), as well as the FASB Staff Position of October 10 (FSP FAS 157-3), which provide useful clarifications for determining the fair value of a financial asset when the market for that asset is not active.

"The authorities have also taken note of the statements issued by the International Accounting Standards Board on October 2 and 14, indicating that the SEC and FASB clarifications are consistent with [IAS 39](#)."

Critics of fair-value accounting also argue that the rules have been exacerbating the global financial crisis by further depressing financial assets and making it harder for companies to access capital in markets where capital has evaporated.

"Actually, huge losses reported by financial firms on sub-prime assets have led to a debate over the implementation of SFAS 157 in circumstances where markets collapse and price inputs are not readily available," the paper said.

"In the current crisis, banks and investment banks have had to reduce the value of the mortgages and mortgage-backed securities to reflect current prices.

"Those prices declined severely with the collapse of credit markets as mortgage defaults escalated. Fair value accounting requires banks to value their mortgage-related assets at current market prices."

As for Thailand, the academics suggested that [Thai authorities might also need to change the rules on fair-value accounting and proceed with deliberation through communication with constituents on an urgent basis.](#)

They argued that accounting is not merely a tool to measure a "single economic reality" but a technology that could visualise aspects of realities.

The trade-off between tightening of accounting regulations (strictly applying fair-value accounting, for example) and negative impact on industry competitiveness should be considered from multiple perspectives, they said.

They also believe that finance is supposed to play a supportive role for growth of an economy.

"Originally, computational or mathematical finance was for the economy to hedge the risk of creation of credit. Ironically, this advanced scientific approach drove up current financial crisis," they said.

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