

# Current accounting rules may damage balance sheets

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**The balance sheets of listed and unlisted companies in Thailand could be severely damaged by the current global financial crisis, and commodity prices could collapse due to the existing accounting rules.**

Dr Pongsak Hoontrakul, a senior research fellow at Bangkok's Sasin graduate school, told me the other day that the prices of soft and hard commodities, such as steel, oil, rice and chemical products, were now about half of what they used to be a mere month ago. The Thai stock market has also plunged more than 35 per cent over the past two months.

If the real-estate market in Bangkok's central business district also starts to soften, the current mark-to-market (MTM) or fair-value accounting will wreak havoc on the balance sheets of most listed firms in the Kingdom.

With this MTM approach, the balance sheets of all banks, brokers and firms would be ruined materially. In fact, the third-quarter results are already showing some signs. Pongsak suggested that the solution was to have the IAS 39 standard amended so as to allow the selective re-classification of the standard in "rare circumstances".

Of course, tax consideration and market discipline should be considered carefully. Thus there has been a call to form an official committee to study and recommend to the authorities the ways of defining and implementing this amendment.

It's an urgent matter and should be completed prior to year-end accounting, in a way similar to what has been done in the United States, Europe and Japan.

Unless the MTM issue is addressed properly, stock prices and market sentiment will be aggravated even further.

Pongsak and his colleagues have also called for the setting up of a professional study team, consisting of accountants, practitioners from industries, politicians, academics and lawyers, among others, to handle this issue.

"A number of announcements in relation to the fair-value or MTM 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 paper is entitled "The State of Fair Value Measurement, Global Financial Crisis and Implications to Thailand". The authors say:

"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."

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 says.

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