

The State of “Fair Value” Accounting and Implications to to Thailand

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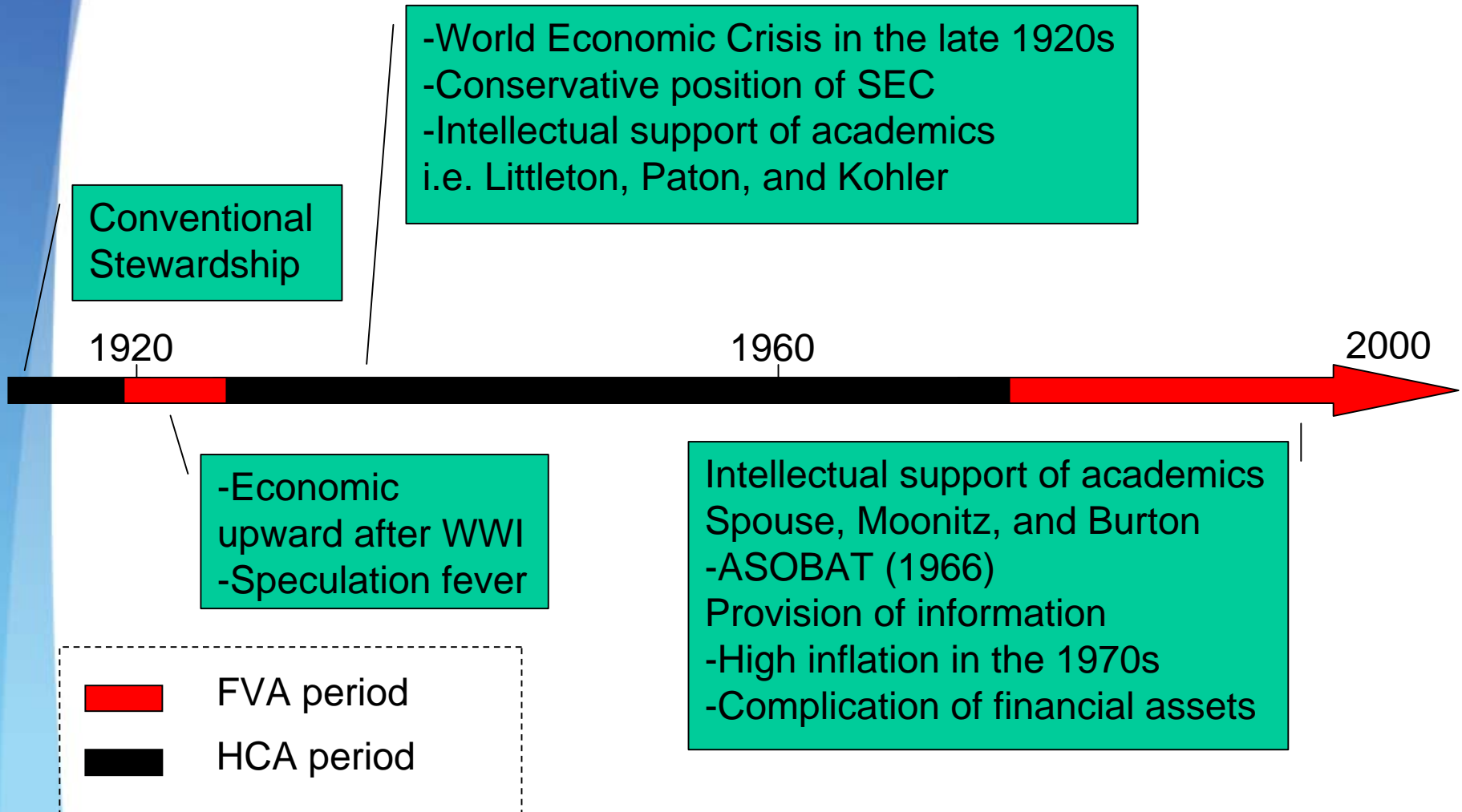
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This is not new!!

A brief US history: FVA and HCA



HCA and FVA

	HCA (Historical Cost Accounting)	FVA (Fair Value Accounting)
Key features	<ul style="list-style-type: none">–Stewardship<ul style="list-style-type: none">•European tradition (esp. Italy and England)–Income-Statement–Exclusion of unrealized profit<ul style="list-style-type: none">•Distributable profit–Confirmatory value (transaction based)	<ul style="list-style-type: none">–Investment Decisions<ul style="list-style-type: none">•ASOBAT (1966)–Balance-Sheet–<i>Inclusive</i> of unrealized profit–Predictive value (present values, models, and estimates)

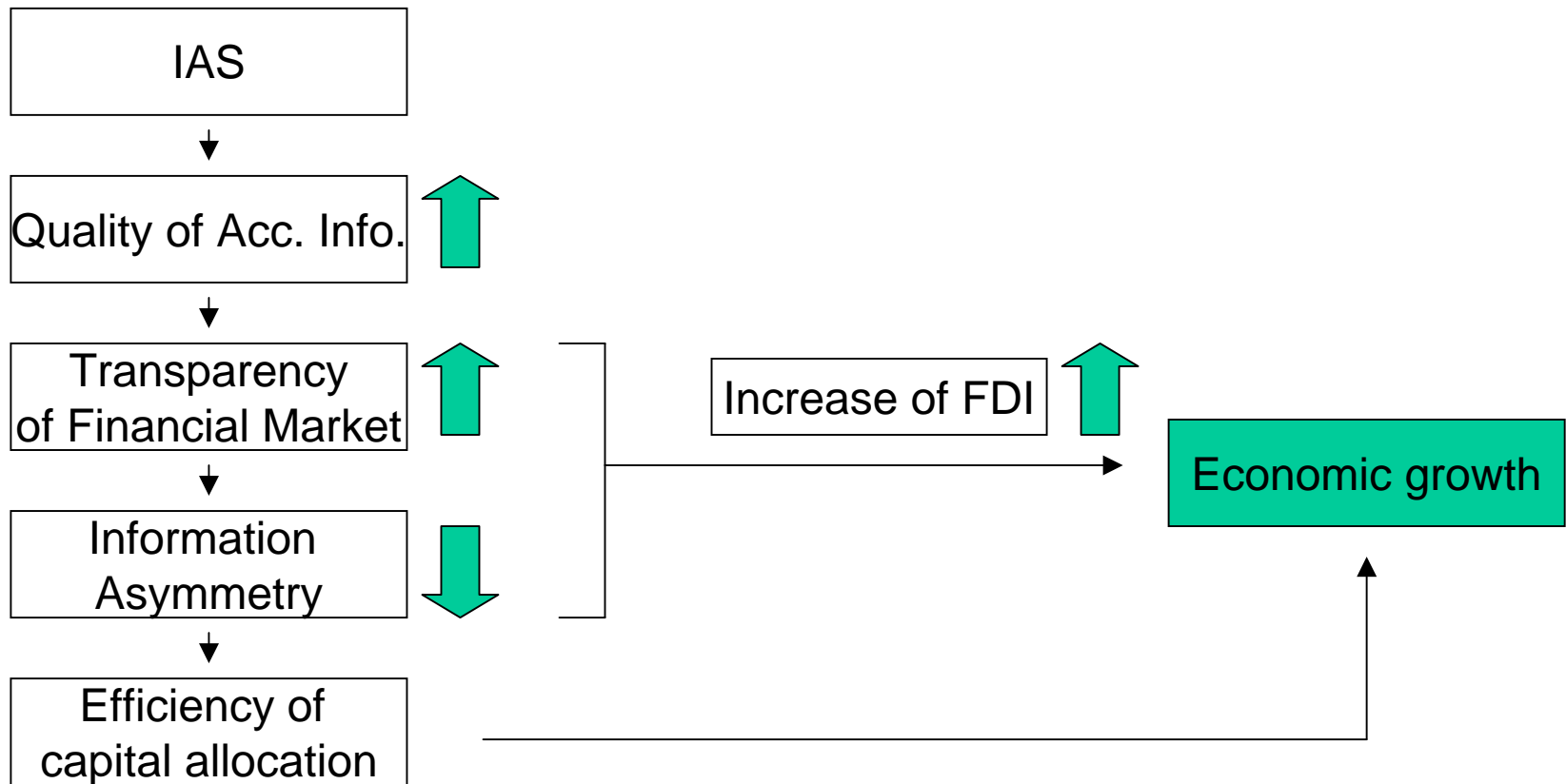
Facts-based accounting and Forecasts-based accounting (Ijiri 2005)



- Even for investors, information about the profit and basic accounting information are the most important one. Historical cost accounting is the appropriate method for these information.
- Balancing both accounting information: financial record and financial report.

Anglo-American View

Decision making for investors



Gap from IAS GAAP (2001)



Asian countries

	lacked and different items from IAS GAAP
Thailand	16
Korea	17
Pakistan	19
Indonesia	20
Philippine	25
Malaysia	26
China	26
India	28

Advanced countries

	lacked and different items from IAS GAAP
Singapore	14
UK	21
USA	22
Canada	25
Japan	27
Australia	28
Germany	40
France	40

Recent Global Financial Turmoil



- FASB/IAS aimed at making derivative financial assets on balance sheet.
- In relation to Subprime loans, most mortgage backed securities were estimated to have little market value.
- Some major financial institutions were revealed in undercapitalization (famous for Fannie Mae and Freddie Mac).
- Financial Distrust caused by subprime problem spread out in the world

FAS 157 of FASB and its postpone



- To enhance “Transparency” fair value accounting was implemented in measuring all financial assets.
- Level 1 (clear market price),
- Level 2 (not active but observable market),
- Level 3 (low-liquidity, mgt assumption)
- 30 Sep. 2008 release (implement in 2009 toward in 2010)
 - Pended the adoption of FAS157 in Lv.3 assets evaluation

Amendments of FAS 157 and IAS 39



	US GAAP	IAS 39 Amendments
Reclassification of securities out of the trading category in rare circumstances	Permitted	Permitted
Reclassification to loan category (cost basis) if intention and ability to hold for the foreseeable future (loans) or until maturity (debt securities)	Permitted	Permitted
Reclassification if fair value option previously elected	Not permitted	Not permitted

Implications to Thailand:

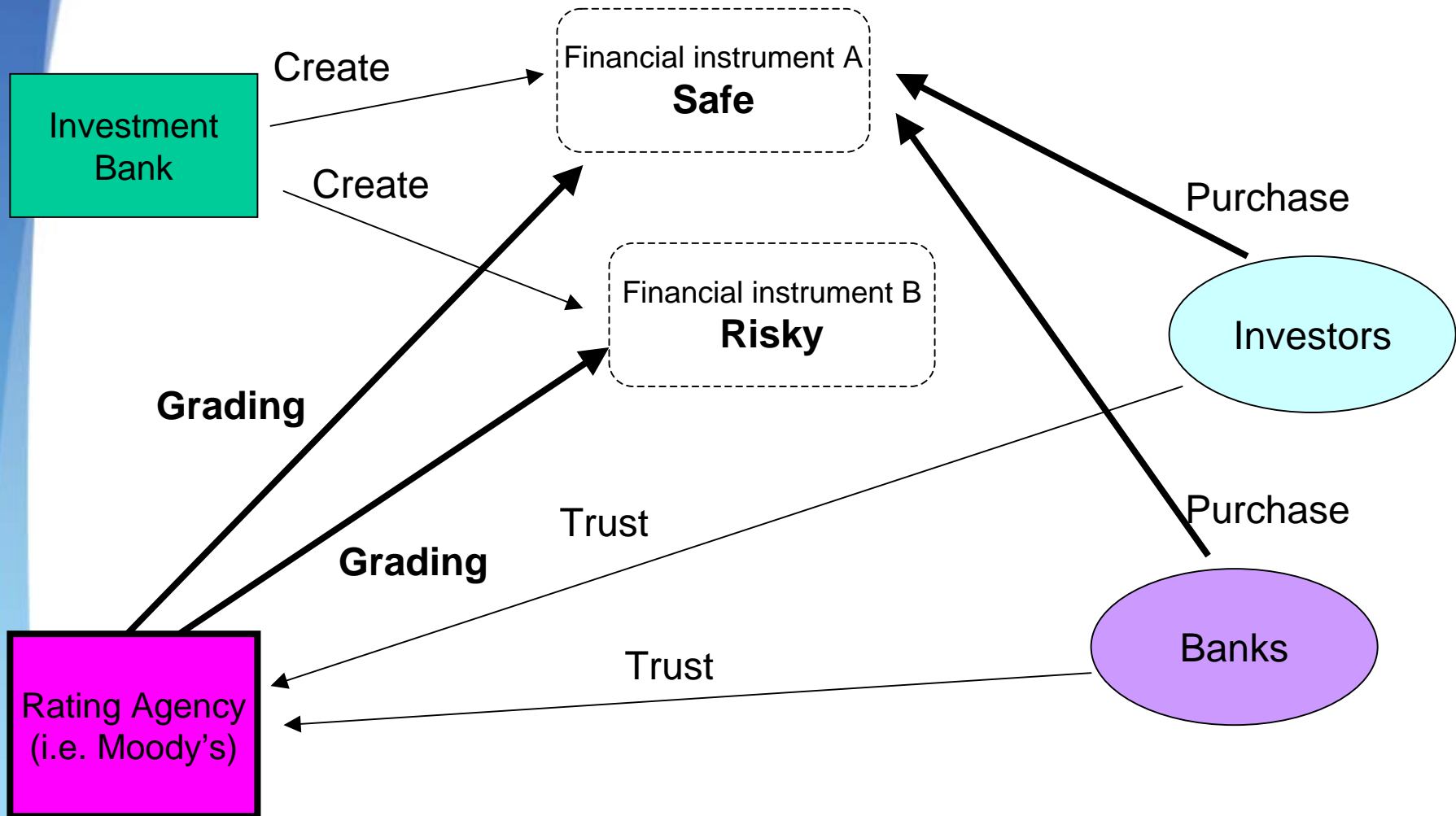
3 Steps for the recovery from recession



- **1st : Reduce “distrust” to financial system**
 - Amendment of fair value accounting
 - Maintaining the financial liquidity
- **2nd: Address under-capitalisation**
 - Especially banking industry
 - Flinging public money (if necessary)
- **3rd : Reduce NPAs (non-performing assets)**
 - Grasp the state of financial assets non-banking industries, i.e. holding ratio of financial assets, ratio of derivative assets

“How AAA rated CDO lost 50%?”

Accounting as social and institutional practice



END

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Simplified bank balance sheet



ASSET

Bank loans to customer aa

Inter-bank loans XX

ABS CDO, MBS ZZ

Investment Port. zz

Others _____
100

LIABILITY

Deposit (retail) bb

Bond cc

Inter-bank liability YY

Others

EQUITY 10
100

* Off-balance sheet – **CDS**, Swap, Future, Options.. With other banks

Figure 12b: Simplified Asset Value Cycle

