

# Stringent accounting rules may be making things worse during financial turmoil

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**Dr Pongsak Hoontrakul, a senior research fellow at Bangkok's Sasin graduate school, told me the other day that the global financial crisis had serious implications for corporate balance sheets in Thailand and elsewhere.**

Due to the collapse in the price of key commodities, such as oil and steel as well as financial products such as stocks, the balance sheets of listed and unlisted firms will be destroyed by the current accounting practice, he said.

Since the mid1990's, several countries, including Thailand, have adopted the fairvalue accounting (FVA) or marktomarket (MTM) accounting standard, which are fine in markets that are functioning well.

However, **pongsak** said, markets have become dysfunctional in the wake of the global financial crisis, as evidenced by the sharp fall in the price of equities - Dow Jones is down by onethird - and crude oil, from the \$147perbarrel (Bt5,220) peak in July 2008 to less than \$60 now).

As a result, most balance sheets will look dismal when they are released early next year, he predicts.

**pongsak** and other academics suggest that Thailand form a professional study team, consisting of accountants, industrialists, politicians, academics and lawyers, among others, to address the issue.

"By considering the turmoil in global financial markets and an international movement to revise the rule that requires banks to account for assets in line with market prices, which has led to big changes in mortgagebacked securities, Thailand may need to change its rules on fairvalue accounting and proceed with deliberation through communication with constituents on an urgent basis," says a paper coauthored by Taka Fujioka, Seitaro Seko and **pongsak**.

According to "The State of FairValue Accounting, Global Financial Crisis and Implications for Thailand", the bulk of today's accounting problems stem not from within the productive capital, as in the case of accounting for fixed assets' notable depreciation, but from the process of transforming monetary capital into productive capital or capital credit.

It says financial assets are influenced by fairvalue measurements and some of them are thought to be a main cause of the current financial crisis. Unless the MTM issue is addressed properly, stock prices and market sentiment will be aggravated even further, they write.

"A number of announcements in relation to fairvalue or MTM measurements under international accounting standards have been publicly released [by several countries, including the US, the European Union and Japan]," says an earlier, preliminary paper by Fujoka, Seko and **pongsak**.

"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, fairvalue measurement of certain financial instruments, whose changes in value can affect earnings or capital, raises major practical problems for the preparers and the 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 and the Financial Accounting Standards Board, as well as the FASB Staff Position of October 10, which provide useful clarifications for determining the fair value of a financial asset when the market for that asset is not active."

Critics of fairvalue 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.

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