

INTERNATIONAL ACCOUNTING AT A CROSSROADS

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The Financial Accounting Standards Board (FASB), under pressure from the US Congress, approved additional changes on April 4 in mark-to-market accounting and impairment of debt instruments, aimed at easing accounting requirements so as to alleviate the financial crisis. This has raised concern over political intervention in accounting standards.

Primarily, the FASB and the International Accounting Standards Board (IASB) are independent non-profit organisations responsible for issuing cross-sector accounting standards. Since the financial crisis there has been some suspicion that the FASB has been politically influenced and accounting standards amended for particular purposes.

Under the new FASB rules, banks are allowed to use their own discretion in pricing financial instruments if there is evidence that the market is inactive and that a quoted price is indicative of a distress sale. As far as impairment goes, only the credit-loss component of debt securities will be recorded in earnings, while other components of loss (such as those resulting from market risk or liquidity risk) will be recorded in equity.

Accordingly, net profits and regulatory capital will increase from what they would have been under the previous rules.

These two accounting concepts get a positive response from the US banking sector.

Citigroup's chairman said it was a good decision on the part of the board. There is also an expectation that profits in the banking sector will improve significantly by dint of the accounting changes.

The chairwoman of the Federal Deposit Insurance Corp also told a conference that banks needed flexibility in valuing their assets while maintaining the integrity of their balance sheets.

Nevertheless, this integrity may be hard to prove since banks, under the new dispensation, will make every effort to optimise their financial performance. Responsibility may be shifted to external auditors and regulators to show whether financial reporting is accurate and reliable.

There have also been negative comments on the accounting changes from market players. Some analysts say investors will be reluctant to put their money into firms that hide the real value of assets and liabilities. Proponents of fair valuation say the new rules may breed distrust in financial reporting, weaken transparency and hurt capital markets.

The IASB, meanwhile, is definitely under pressure to amend the accounting principles generally used by EU members to allow for the same treatment. On April 24 the IASB announced that it agreed with the FASB and was working on a wholesale revision of IAS 39 which would be released for comment in September or October.

The revision of IAS 39 will have a major impact on financial institutions' accounting policies. Areas subject to revision include expected-loss methodology, impairment, effective interest rate, and presentation and disclosure.

For Thailand, which has partially adopted IAS 39, it will be best to wait and see whether, on the basis of US experience, the changes have a desirable and sustainable effect on banks' performance and stability.

(The views expressed are the author's own.)

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