

# Holding on to our rules



Photo: Colin Beare

Dear members,

The economic crisis continues to boil around us, and as accountants, we are experiencing situations where the tools that have held us in good stead during normal times are called into question.

As I write this, it is accounting for financial instruments.

We are seeing situations where financial products can't be sold, even highly liquid products such as commercial paper and the bonds of large corporations. We find ourselves setting prices so low we wonder if we are really setting a fair value, or market price, to any given asset.

The International Accounting Standards Board has faced criticism in the last quarter of this year as fair value accounting has become contentious – what is “fair value” in an illiquid or inactive market?

The world's standard setters have risen to the challenge in answering this question.

The IASB early on recognized the need to clarify International Financial Reporting Standards given market conditions and to keep watch on other jurisdictions, particularly the United States, to make sure inconsistencies did not develop in accounting treatments.

In late September, the American standard setters responding to the

crisis, the Securities and Exchange Commission and the Financial Accounting Standards Board, issued a clarification to provide guidance for determining fair value in inactive markets. The IASB reviewed this and said it considered it consistent with IAS 39 *Financial Instruments: Recognition and Measurement*.

In the same vein, the IASB and the FASB are working together to find a common approach to value financial assets and liabilities bought by governments, as we have seen in the U.S. and the U.K.

At a similar time, IFAC's International Auditing and Assurance Standards Board released an audit practice alert offering guidance for auditors looking at fair value accounting estimates in times of market uncertainty.

The IASB has, most recently, amended two International Financial Reporting Standards that allow the reclassification of some financial instruments in particular circumstances. This is its latest attempt to help the profession, and the financial system, deal with the credit crisis. The council decided Hong Kong should adopt these amendments, which will be incorporated into Hong Kong Financial Reporting Standards in due course.

The Institute has been monitoring the development and the public

discussion at the IASB, and the council was able to decide to adopt these amendments less than 24 hours after the IASB issued them on 14 October. We did this to keep Hong Kong aligned with the international markets and give Hong Kong financial institutions access to the same accounting rules as those available in Europe and the U.S. Since Hong Kong is a financial centre, this made sense.

We are certain that in making this decision, we did not compromise the principles of transparency or fair value accounting, to which we remain committed, as does the IASB.

The council thinks this is a sensible decision and shows the profession understands the practical side of business during what is for most of us an unprecedented market spiral. We are holding on to our rules, as we should, but we are adapting them until order is restored to the market.

Sincere regards,

A handwritten signature in black ink, appearing to read 'Albert S.C. Au'. The signature is stylized and fluid.

**Albert S.C. Au**  
President