

Rally in adversity



Photo: Colin Beese

Dear members,

The G20, the group of nations representing the bulk of the world's wealth and the future world powerhouse nations, is meeting in early April to make some decisions about taking the world forward through the worst financial crisis of our time.

The leaders of the G20 have the profession and especially financial reporting prominently on their "fix-it" list.

This presents significant dangers for our profession, both globally and here in Hong Kong. Fair value accounting is under question in several jurisdictions. The Federal Reserve Chairman in the United States is putting pressure on the International Accounting Standards Board to withdraw fair value accounting, yet at the same time calling for implementation of one set of global standards. The French finance minister has authored an article claiming that the role of accounting standards is to smooth shocks and not amplify them. She is also calling for a reform of the IASB's governance, believing that it should no longer be permitted to set standards without the involvement of public authorities and without a clear aim of financial stability.

These views call into question the fundamentals of accounting and the independence of standard setters. In addition to all of this, we are hearing cries for introducing significantly more

regulation of financial institutions and capital market participants.

While it is right and proper that global leaders take this opportunity to examine global financial markets and regulation to learn from recent lessons, we must not misunderstand the origin of this crisis. This crisis did not, in my view, result from accounting and financial reporting issues. Rather it was caused by many factors including inappropriate lending practices, the creation of investment vehicles that investors did not understand, remuneration schemes that encouraged inappropriate lending and securitizations, and poor risk management investment decisions that all led to short-termism, inappropriate behaviour and a breakdown of trust in the capital markets.

Your institute has been given the opportunity to help in this area by providing assistance to the Global Accounting Alliance, the members of which are influential with their governments. Also, we have been given an opportunity to liaise with our own government who, while not being a member of G20, has been provided with an opportunity to assist China in articulating its view.

I intend to make full use of this opportunity to respond appropriately. The effects of the current market volatility are captured, not caused, by fair value accounting. Abandoning those basic principles would likely

compound volatility by creating further uncertainty about the information investors receive, reducing confidence among investors, which in turn would further restrict the flow of capital.

This brings me to the more positive aspect of our role in helping solve this financial crisis. Our skills are needed now more than ever before.

Helping the boards of directors of companies bring clarity to the application of accounting treatments in financial reporting is essential. Using our expertise, whether as accountants in business, or as auditors or consultants, we must help companies enhance and apply robust corporate governance practices, risk management procedures and internal control frameworks that are effective in practice. The supply of capital and funding is short and our skills in helping management and our clients meet the expectations of funds providers is vital to success in this competitive environment. This applies to small and medium sized enterprises as much as to larger listed corporations. It is time for us to rally in adversity and show our clients how to move on from the crisis by capitalizing on our broad range of skills as accountants so that Hong Kong businesses emerge as a stronger force in the global markets.

A handwritten signature in black ink, appearing to read "Paul F. Winkelmann".

Paul F. Winkelmann
President