
FAIR VALUE AND ACCOUNTING STANDARDS

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Historical Cost

As accountants, we have got used to a conservative historical double-entry accounting that is staid and predictable. Yet one particular form of accounting that is currently on the rise has been blamed by many for pushing the US financial system to the brink of collapse during the subprime crisis of 2008.

Fair Value

This form - known as "fair value" accounting - sees assets and liabilities valued at what they would fetch in the market today rather than at the cost when bought by the current holder. On the face of

it this makes a lot of sense - investors want data based on current prices, not a trip down memory lane. And the rise of fair value accounting over the past few years has indeed been driven in great part by investors' calls for greater clarity in the valuation of both financial and non-financial assets.

But despite what looks like some very sensible reasoning behind its rise, fair value accounting has recently come under withering attack. The problem is that, while valuing assets at current market prices - mark to market - works for most types of asset and liabilities in most circumstances, there seems to be an exception. And the latest step in the progress of fair value accounting was

THE HOURS OF A WISE MAN ARE LENGTHENED BY HIS IDEAS.

perfectly timed to catch this exception.

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This latest step was the US Financial Accounting Standards Board's issuance in September 2006 of a new standard (FAS 157) governing how companies should undertake fair value estimations. This standard, which became effective for financial assets and liabilities for fiscal years beginning after November 15 2007, arrived at US financial firms just as they were being forced to confront the emerging subprime mortgage crisis. The exceptional circumstance was that, while fair value accounting calls for assets and liabilities to be valued at putative market prices, the subprime meltdown and the writedowns associated with it saw the almost complete drying-up of the market. This meant it was impossible to sell large positions. The concept "market price" for a while became near meaningless, since there was no price at which certain types of security could be sold. With the new fair

value rules requiring that they mark their assets to market, financial firms had to revalue their portfolios downwards to mirror what was, in essence, a near total collapse in market prices. The curbs on classifying financial instruments as Held to Maturity (HTM) - thereby measuring them at amortized cost as against fair value- has been another major criticism against the concept of Fair Value. The International Accounting Standards Board (IASB) - formulator of International Financial Reporting Standards (IFRS)- is an even more vocal advocate of fair value since it has found its way into their standards on Investment Property (IAS 40) and Agriculture.

It would be immature to write off the concept of fair value as a measure of accounting. To be fair to fair value, it is a concept that is new and would mature over time. Apart from measuring the true value of assets and liabilities on a Balance Sheet, the very concept of fair value would prompt finance heads to avoid dabbling in financial instruments of queer nature.

For the Kind Attention of Members

CONFERENCE ON INTERNATIONAL TAXATION AND TRANSFER PRICING

The Hyderabad Sub-Chapter of International Fiscal Association (IFA) is organizing a two day conference focussed on "International Taxation and Transfer Pricing" on December 12 and 13, at ITC Kakatiya, Begumpet. Sessions of relevance on issues of current day controversies have been chosen and being delivered by experts in the respective fields. The seminar also has panel discussions on issues surrounding the BPO sector in relation to transfer pricing. Members interested may register at the earliest as the registration is restricted to first 100 participants only. For further details, please e-mail to ifa@sathguru.com or call Dinesh on 94403 31187

ANNOUNCEMENT

CPE Credit Requirements for three-years rolling period 2008-2010

The first calendar year 2008 of the three years rolling period 2008-2010 is on the verge of its completion. Members may kindly ensure that they complete the minimum CPE Credit requirements for the Calendar Year 2008. The CPE Credit Requirements for the three years' rolling period 2008-2010 are as given below:

- All the members who are holding Certificate of Practice (except those members who are residing abroad), unless exempted, are required to:
 - (a) Complete at least 90* CPE credit hours in each rolling three-year period of which 60 CPE credit hours should be of structured learning.
 - (b) Complete minimum 20 CPE credit hours of structured learning in each year.
- All the members who are not holding Certificate of Practice or are residing abroad (whether holding Certificate of Practice or not unless exempted, are required to:
 - (a) Complete at least 45 CPE credit hours of structured/unstructured learning in each Rolling three year period.
 - (b) Complete minimum 10 CPE credit hours of structured/unstructured learning in each year.

We may clarify that out of minimum 90 hours of CPE requirements, the members have to complete 60 CPE hours of Structured Learning (**20 CPE hours of structured learning per year of three years rolling period is mandatory**). The remaining 30 hours could be completed either through structured or unstructured CPE learning activities, any time during the three year s period from 1st January, 2008 to 31st December, 2010.

Continuing Professional Education Committee

ANNOUNCEMENT

Members who have attended the IFRS Workshop held in the month of October and did not collect the Workshop Gift are requested to collect from the branch.