



Stand up and be counted

Everyone is understandably nervous about the impact of the ongoing financial crisis but, says **David Furst**, the profession owes it to the world at large to stay calm and continue to work with governments, regulators and the financial community to restore confidence

Last month was extraordinary by any measurement. Who would have thought that in the space of a few days the Icelandic economy would have collapsed, the world's stock exchanges would have gone into freefall, a number of the UK's leading banks would be part-nationalised and leaders globally would have put their differences aside in a concerted effort to bring the crisis to an end?

This is not the first draft of this article! Indeed, between *Accountancy* going to press and your reading this page, it may well be that events have again changed the economic landscape fundamentally.

The speed with which events are happening makes it extremely difficult to make predictions. But one thing is clear: we are about to enter a recession – not perhaps the meltdown of the 1920s and 1930s – but there will be job losses and an increase in the number of corporate failures. The accountancy profession will also come under increasing scrutiny, not because our skills will no longer be in demand but because in times of crisis, inevitably, questions will be asked about the frameworks and governance rules within which we operate. It has already started with calls in the UK, US and the European Union for the 'suspension' of fair value accounting.

Where is the logic in 'suspending' an accounting rule just because you don't like the answers it is throwing up at a given time? Accounting rules are not to blame for the devaluation of assets that is affecting banks and other financial institutions in particular. The current difficulties lie in the lending practices of certain institutions that did not properly price risk into the decisions they were taking, and the increasing complexity of financial instruments that were hard to understand in their entirety, even by the most financially literate professionals.

At the institute, we support the use of fair value for the purposes of financial instruments across the listed company sector as offering investors and regulators accurate and

transparent financial information. However, we may well need to educate the world at large about what it actually means. In turn, the world at large has to face up to the fact that suspending this accounting rule would neither improve the situation nor restore confidence.

There are similar problems with pension accounting. I recently attended a clearance meeting at a large international client that was happily posting record results, with turnover up 20% and £100m plus in the bank. Its accounts, as of March, showed net assets at £110m and net assets after pension deficit of £70m or so. Now, if that pension fund had been entirely invested in the FTSE on Friday 10 October, when the index plunged by more than 10% to a low of 3,873.99, according to the accounting requirements, the company would have had negative worth. You can already hear the cries of 'That's a nonsense.'

There is also nervousness in the profession about proposed moves by the Financial Reporting Council to add a fourth conclusion, about material uncertainties, to the content of disclosure section in the *Guidance for Directors of Listed Companies on Going Concern and Financial Reporting*. Auditors fear that, in the event of corporate failures, they will be damned if they chose to adopt an ultra cautious approach and apply the new definition – thereby 'causing' the company to collapse, and damned if they didn't. There may well be tough decisions to make. In some cases, it could be a very close call. Not offering an opinion on a company's status as a going concern would also send a strong message, but potentially putting the future of an audit firm at risk, if hindsight proved that call to be wrong, cannot be in anyone's interest.

I believe that it all comes back to restoring confidence. Now, more than ever, whether we run or lead businesses, act as non-executive directors or work as auditors or advisers, we need to continue to exercise our professional judgment without compromise, and with thoroughness and integrity. And however volatile the coming months, as a profession we have to stand up and be counted.



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