The Problems of Accounting Standards *(Continued from page 4)*

Let us look at the current crisis and what is actually happening.

Look at the following graph:

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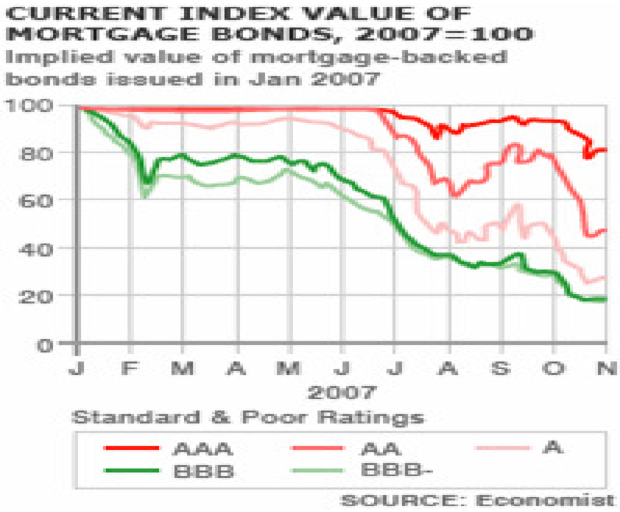

This is from the economist. What you can see is that AAA rated bonds have been written down by 20% under these current rules and the misinterpretation of fair value that is currently occurring. The statistics show that for a AAA rated tranche of a mortgage book to be impacted by a downturn in the market, 29% of the portfolio needs to go into arrears. The figures for Northern Rock were published today – arrears are 0.75%. Not 1%, not 5%, not 25%... but Northern Rock bonds will have been written down by 20% without any prospect that there will be a default.

What this actually means is that anyone that has sold such bonds in the current climate has managed to crystallise a loss that does not exist. The provisions that have been made by many of the financial institutions also do not really exist. If they were to hold the assets to maturity then they would receive full value for such assets. Of course if they have sold such assets, probably under pressure from the media and people that should know better, then they have managed to incur an unnecessary loss.

What should be done? In our view if an asset does not have any long term impairment and is to be held to maturity then it should not be written down – the current speculative market price is irrelevant. In this case we have negative speculation caused by the asset no longer being suitable for the market for which is was designed.

All that this requires is a formal definition of fair value and a change to the terms of Held to Maturity Assets. What is clear is that accounting standards that are developed without considering their implications to business will likely be fatally flawed. ***Come on IASB wake up and smell the roses.***

The Need for Accounting Training

What this shows is that the accounting rules are becoming increasingly complex and that many financial institutions in particular have a challenge in ensuring that their accounting and finance functions are both up to an adequate standard and up to date.

ICAEW THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES
PARTNER IN LEARNING

The Institute of Chartered Accountants in England and Wales (ICAEW) have recognised this problem and developed a new series of products to meet the demands of this market. Created using existing materials developed to ensure that all chartered accountants meet required technical standards, for the first time non-chartered accountants can study ICAEW materials (either examinable or non-examinable).

The objectives of this new programme are clear. It enables the Finance Director and CEO to know that they finance functions are at least able to meet the benchmark standard that the ICAEW sets for technical competence in the following areas:

- Financial accounting
- Management information
- Business and Finance

'The Institute of Chartered Accountants in England and Wales (ICAEW) have recognised this problem and developed a new series of products to meet the demands of this market..'

Three other modules are also available addressing Audit and Assurance, Taxation and Law and non-examinable advanced courses are also available again using ICAEW produced materials.

These courses are available through the ICAEW training partners and we are pleased to announce that Risk Reward is the leading global training partner for this extended programme.

If you require any further information to see how this could benefit your firm please call Lisette Mermod on 00 44 20 7638 5559 or email her at **LM@riskrewardlimited.com**