WELCOME REMARKS

BY

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FOR THE

SEACEN FINANCIAL REPORT SYMPOSIUM

PROMOTING FINANCIAL STABILITY THROUGH

ENHANCED BANK TRANSPARENCY

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Good Morning,

Mr Gerald A. Edwards, Jr., Senior Consultant, Former Chief Accountant of Federal Reserve Board's Division of Banking Supervision & Regulation
Mr. Michael J. Zamorski, Adviser, Financial Stability, the SEACEN Centre

Ladies and Gentlemen,

On behalf of The SEACEN Centre, it is indeed a great honour and pleasure to invite all of you to this SEACEN Financial Reporting Symposium with the theme "Promoting Financial Stability through Enhanced bank Transparency".

We are indeed fortunate to have Mr. Gerald Edwards, Jr, a recognised global expert in accounting, auditing and risk disclosure as a lead speaker in this symposium. Mr. Edwards, is of course, affectionately known as Jerry. I am also like to thank Mr. Michael Zamorski, adviser, Financial Stability of the SEACEN centre for serving as the other lead speaker. Mike has also been tirelessly working closely with Jerry to ensure the success of this symposium. I would like to also take this opportunity to thank Mr. Chan Tuck Yuan, associate accounting specialist in the Prudential Policy Department, Bank Negara Malaysia for being the panellist in one of the sessions.

Ladies and Gentlemen,

In modern capital markets and financial systems, accurate and robust financial reporting information of an institution is vital as it provides all stakeholders, in particularly equity investors and providers of risk capital with necessary information to make informed decisions regarding that institution. Having said that, please allow me to transport you back in time for a moment to recall the history of financial accounting.

The origin of banks is known as the rise of the Italian Medici in the 14th century. The Medici Family kept three accounting books. The *libro segreto* – literally the “secret book” which recorded income and profits as well as specific agreements or contracts of importance while the other two recorded firstly, income and expenditures and secondly financial information regarding debtors and creditors. Early records kept by the Medici family also included balance sheets with reserves and deposits correctly arranged on one side and loans to clients or commercial bills on the other side. No doubt, the Medici family was fully aware that sound financial accounting book keeping was one of the critical factors which eventually led to the success of their business, in term of effective financial monitoring and surveillance. I have to emphasize that in those days, the Medici’s accounting practices worked excellently because the records were exactly what they are meant to be- a family’s trade secret.

Coming back to today’s financial environment, while the basic ingredients of bookkeeping remain the largely the same, the scenario has now become increasingly complicated as there are multiple stakeholders who equire access to these information. In other words, secrecy is no longer the order of the day and indeed, transparency is demanded.

Transparency or the full disclosure in financial reporting in the context of banks refer to the extent stakeholders can access to accurate information about the financial position of the institutions. Transparency in financial reporting implies that there is NO gap in information available to the various stakeholders. If such a gap exists, or what is known as *information asymmetry* occurs, whether deliberately or otherwise, one party, usually the management have more information compared to the external stakeholders. In the modern financial settings, such principal–agent problems cause misinformation. Obviously, if there a deliberate attempt to hide information, then there exist elements of fraud. Other than this, misinformation can be due to many reasons, the chief of which is the inadequacy of the reporting system.

Ladies and Gentlemen,

Like they say, there is no industry like the banking industry. As balance sheets of banks are extremely vulnerable to business cycle and volatility, I strongly believe greater transparency in financial reporting of the industry is a prerequisite for financial stability. What then constitutes good financial reporting? It must be sufficiently transparent so as to not cover any vulnerabilities or to hide them. Obviously, the lack of transparency hide risks and these risks can accumulate until the institutions break into a zone of financial instability. Also, effective financial sector surveillance cannot take place if there is no financial reporting infrastructure that conforms to international standards. This is well illustrated by the Global Financial Crisis. I should also say that prudential authorities working together with the relevant parties can play a vital role in enhancing banks' transparency, particularly regarding risk exposures and risk management practices.

In this symposium, we are looking at several areas of interest and examine why they are so vital. These are:

1. Common trouble spots uncovered during regulatory examinations;
2. Valuing assets - some assets have a regular market that provides price discovery while others are more thinly traded and valuations are essentially based on judgemental estimates that can vary widely;
3. Asset impairments – as banks do not always recognise asset impairments, mostly loans, on a timely basis and sometimes continue to inappropriately accrue interest income on problem assets, even when collection of principal is not well assured
4. Recourse – banks sometime report 'sales' of bank assets when the substance of the transaction is really a financing one. Recourse arrangements may exist that provide for the 'selling' banks to absorb any losses in the assets, all the while the risk has not really been transferred to the purchasing bank.

Ladies and Gentlemen,

I sincerely hope that this symposium will be able to look at these important issues and engender fruitful discussions regarding financial stability through enhanced bank transparency. I wish all of you a successful Symposium and trust that the interactions and practical insights of participants will prove to be useful in enhancing the regulatory oversight of financial reporting in the SEACEN economies, which is a major foundation of prudential supervision.

Thank you