

## Editorial

## Climbing Out of the Credit Crunch

Crisis, crunch or freeze: call it what you will, the turmoil in international finance has significant short and long term implications for virtually everyone. Many businesses, particularly in the SME sector, will pass an anxious holiday season concerned by the consequences of a possible lack of liquidity in 2009.

This issue of *Accounting Matters* approaches the credit crunch difficulties from a number of perspectives. On the macro level we ask whether the worst is over internationally. The recent US elections will bring new hope to many that we have turned the corner on these dark months in our economic life but, though a new resolve is palpable, there is still a steep hill to be climbed. In this context, an analysis of the EU's response is certainly valuable, as is highlighting the new challenges in valuing assets that the downturn in construction presents. Nothing brings the dangers of the current situation home more clearly than the spectre of company closures and redundancies. Watching for the 'early warning signs' is an important role accountants can play and some useful advice is provided to identify when a business is in danger.

Our keynote feature, coincidentally, follows the

merger of Grant Thornton and Foster McAteer in October of this year, the latter a specialist in business reorganisation and liquidation. As clients demand a wider range of more specialised services, mergers are increasingly viewed by accountants as an opportunity to upskill and upscale their capability. Our two interviewees offer some interesting insights on approaching and planning this exacting process.

ACCA, as an organisation, has also been responding to the credit crisis. Based on debate generated at ACCA-hosted global events and contributions to Regulators and standard setters over the past year, a recent publication *Climbing out of the Credit Crunch\** summarises the organisation's views on the causes of the problem and focuses on five major areas of resolution: corporate governance; remuneration and incentives; risk identification and management; accounting and reporting; and regulation.

Essentially it argues that the fundamental responsibilities of a corporate board – to provide strategic oversight and direction, to ensure a strong control environment and to challenge the executive – need to be more effectively discharged; that executive remuneration should promote long-term, not short-term performance; and that risks need to

be better identified, better modelled and better understood by management. On the other hand, it acknowledges that fair value accounting may have inadvertently made the credit crunch worse, but concludes that the increased transparency of IFRS and fair value accounting still make it the best model available. Finally, the paper states that clearer, rather than heavier, regulation is what is ultimately needed as we move forward.

From an Irish perspective, the government's bank guarantee scheme addresses some of the concerns identified in the paper, particularly in the areas of corporate governance and remuneration and incentives. More detailed analysis of the cause of the credit crunch in Ireland will take some time, as will assessment of the impact of the Government's measures. In any event, ACCA's paper certainly provides much food for thought and will cause considerable debate, not least among the banking, investment and academic community.

On behalf of everyone at ACCA Ireland, I wish you all a very happy Christmas and look forward to working with you in 2009.

**Kevin Kernan**  
Head of ACCA Ireland

\*The full report can be downloaded from: [www.accaglobal.com](http://www.accaglobal.com)

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