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Muddy Cloud with Silver Lining? Bring it on!

Themis SUWARDY

Singapore Management University, tsuwardy@smu.edu.sg

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Muddy cloud with silver lining? Bring it on

Dear Santa

Merry Christmas! This is always a special time for the little ones and I want to thank you for bringing joy to many families, boys and girls around the world.

I write to tell you how appreciative I and my fellow Singapore investors are for 2012. Indeed, 2012 has been a curiously muddy year. Our economy seems to be in a phantom recession. Even as everyone talks about doom and gloom, sovereign and currency crises, or falling off the fiscal cliff, yet here in Singapore we have record high home prices, record high COEs (I hope you don't need a new sleigh anytime soon!), and the benchmark Straits Times Index at 16-month highs.

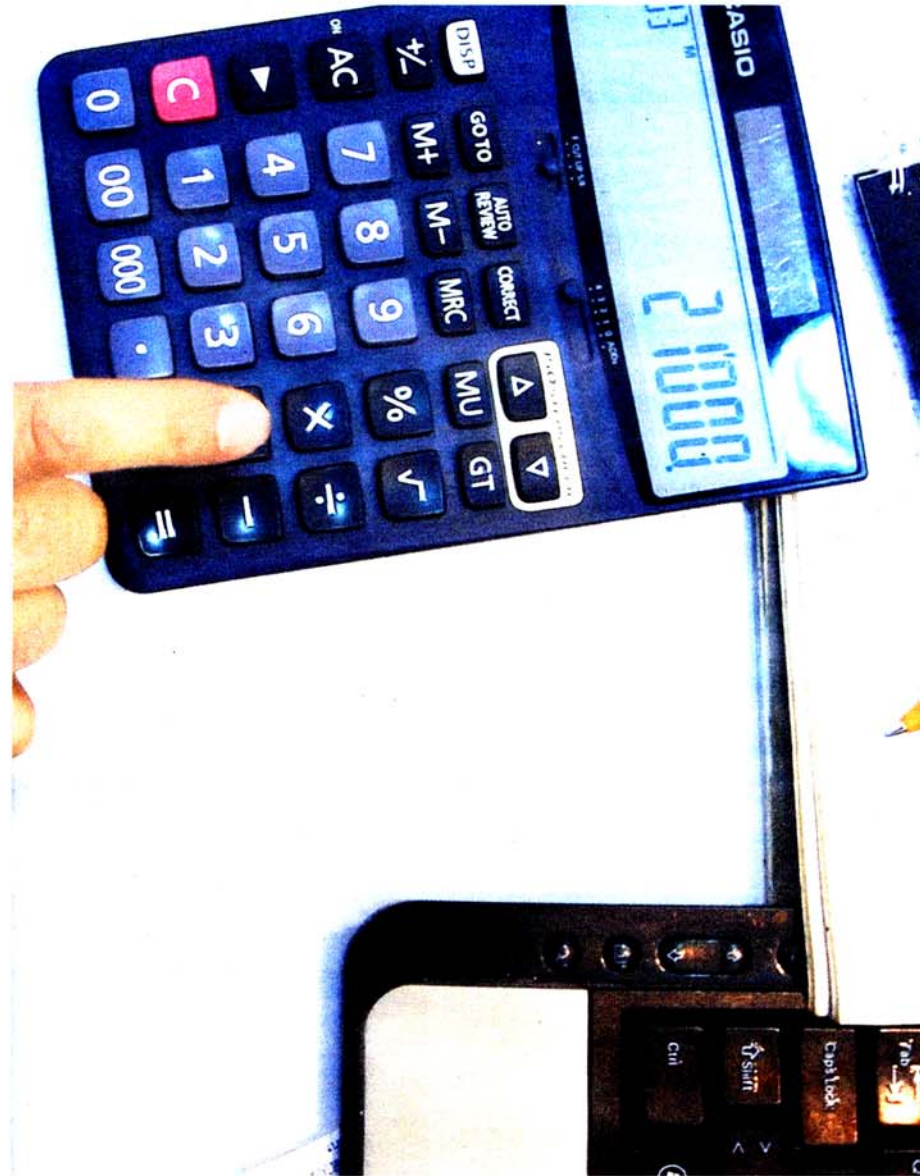
For most investors, the biggest market news for 2012 was Muddy Waters' pot shots at Olam International for its alleged accounting irregularities. Firstly, as an accountant and educator, I was over the moon that people were actually suddenly interested in finding out more about accounting standards. As far as I am concerned, if Muddy Waters made more people download annual reports, read them carefully (yes, including the notes to the accounts), and ask hard questions, they can throw mud at any company anytime. Just don't get sued doing so.

Secondly, I hope my fellow investors realise that accounting measurements, be it for biological assets, physical assets, or intangibles, require the application of professional judgment and estimates. The mathematics in accounting may be science, but the numbers themselves represent concepts created by us as a society. We decided that we want to measure assets, liabilities, income and expenses.

Numbers in accounting are not the same as numbers in physical sciences. One metre in the North Pole is the same as one metre in Jurong. But a million dollars profit in Company A is not quite the same as a million dollars profit in Company B. Both companies would have exercised their own judgment and used many estimates in applying all relevant accounting standards to arrive at that one million dollars in profit.

Take a simple thing as impairment tests. It requires all kinds of judgment and estimates. And it is the same with the booking of gains on biological assets, which requires Olam to ascertain fair market values of its agricultural products, either using observed or derived data about the market. Financial statement disclosures have actually improved greatly over the years. It is time for all investors to look beyond the numbers.

Thirdly, we say accounting is the language of business. Accounting narrates what has transpired during the financial period. Much of the issue with Olam is a question of business strategy, more than the mechanics of accounting itself. Is the company generating sufficient cash from operations? Does it have sufficient liquidity? Is it taking on too much debt? Is its inorganic growth through M&A activities yielding the required returns for the risks



ACCOUNTING FOR NUMBERS

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it had taken? As investors, we should always be inquisitive about a company's strategies in chasing returns, within an acceptable level of risk. Asking pertinent questions is a healthy exercise of the mind (and wallet).

Two other major events happened in 2012 that affected all investors. In October, the Ministry of Finance responded to the 217 recommendations by the Steering Committee for the Review of the Companies Act. When passed into law next year, it will be the biggest overhaul of the Companies Act since its enactment in 1967.

One of the expected changes is to allow companies to issue non-voting shares and vary the votes per (certain class of) share. Some of us old-fashioned folks still subscribe to the "one share one vote" principle, but if having non-voting shares or "super shares" is good for the stock market, or can entice the likes of Manchester United to list in Singapore, by all means, bring it on.

We also had a new code of corporate governance in May. It places greater emphasis on the roles and functions of the

board of directors, and in particular, that of directors' independence. I am told that it rattled some people off their Christmas socks, as they are now subject to more "particularly rigorous review" to qualify for the label of independent director.

I am sure some investors will continue to liven up AGMs with the perennial questions on directors' and officers' remuneration, number of directorships, tenure of directors and various other governance issues. The good thing is that investors are becoming more sensitive to the need for good corporate governance. Once we move past a compliance and checklist mentality, it will really be a new dawn for corporate governance, with or without the new Code.

Santa, we wish you safe travels. May all our days be merry and bright and may all our Christmases be free of the Singapore December downpour.

Themis Suwardy

The writer is associate dean of the school of accountancy and MPA programme director at the Singapore Management University