



### Economic Crisis<sup>4</sup>

"January 2009 world trade down with 90%"

- Subprime crisis
- Credit crisis
- Financial crisis
- Economic crisis

### Reasons Behind the Crisis

- Political scientist:
  - Neo-liberal economics
- Free marketer:
  - Deregulation
  - Over indebtedness

Where is accounting?

### Roles/Impact for/on Accounting

- Intellectual foundation of the "invisible hand of free markets" has failed
- Over indebtedness of banks
  - Unrealised profits under fair value accounting
  - Securitisation

### What is Fair Value Accounting

- Pre IAS39
- IAS39 before changes
- Changes during crisis
- ED267

### Dividend Payouts by South African Banks

- Data
- Methodology:

Bank	Name of SPV	Date	Size	Cum. %
Abia	Abia-in 1	Dec-02	R 15,000,000,000	14%
Abia	Abia-in 2	Dec-02	R 15,000,000,000	29%
Standard	Blue Platinum	Jul-02	R 20,000,000,000	49%
FirstRand	Indeva	Jul-02	R 15,000,000,000	62%
Investec	Greydon 1	Jul-04	R 10,000,000,000	71%
Neobank	Synthesis	Jul-04	R 15,000,000,000	86%
FirstRand	Ivan	Jan-07	R 15,000,000,000	100%
			R 105,000,000,000	

	2008	2007	2006	2005
Abia	-14.20%	7.10%	-4.60%	NA
Neobank	5.4%	0.1%	NA	-4.2%
Rab	-5.20%	NA	NA	NA
FirstRand	26.90%	NA	NA	NA
Investec	14.4%	43.9%	27.8%	NA
Standard	-107.6%	87.7%	NA	NA

### Results

X-regressors (excluding intercept)

Model specification	DIV(-1)	PROFIT	BOOK	CASH AND DEBT	CASHFLOW	EXTR	NONTRAD	Adjusted R squared	Probability of Statistic
Data pooled and common intercept and slopes	0.6433 (0.0000)	0.0742 (0.0174)	0.0169 (0.0941)	0.0069 (0.1807)	-0.0024 (0.7895)	-0.032318 (0.0874)		0.6696	0.0000
Multicollinearity, redundant variables, fixed effects validity, serial correlation and heteroscedasticity tests									
Common slopes with year-specific and year- specific intercepts, corrected for heteroscedasticity	Redundant	0.0807 (0.0186)	0.0357 (0.0007)	0.0169 (0.0029)	Redundant	-0.0290 (0.1044)		0.8187	0.0000
Test significance of components of EXTR									
EXTR replaced with NONTRAD		0.0498 (0.0477)	-0.0384 (0.0025)	-0.0191 (0.0011)		-0.9774 (0.0175)		0.8190	0.0000
Test sensitivity of regression to deflator; use market cap. (-1) to deflate									
Diffusion deflator		0.0747 (0.0186)	0.0119 (0.0101)	0.0119 (0.0020)		-0.9476 (0.0625)		0.7548	0.0000
Test sensitivity of regression to preference dividends									
Preference dividend included as part of normal capital		0.07069 (0.408)	0.0369 (0.0002)	0.0167 (0.0180)		-0.8603 (0.1022)		0.8315	0.0000

Comparison of means done on payout ratio: 1994-2003 versus 2004-2008; highly significant drop of 23% between periods

- ### Limitations and Conclusion
- Comparability between periods
    - BEE deals
    - Inflation targeting
    - International competitive pressure
  - Given limitations empirical results show that FVA accounting led to capital depletion

- ### Questions
- Title?
  - Technique?
  - Other?