

# Measuring Value®

## Why Measuring Value?



Our new publication, *Measuring Value®*, focuses on helping our clients and our markets to understand value, grow it, preserve and protect it. These are the core competencies that underpin and integrate Deloitte's diverse services of audit, tax, consulting and financial advisory as well as our contribution to our strategic business alliances. Future issues of this publication series will focus on a wide range of current issues and critical market developments. In this inaugural issue, I would like to talk about the concept of measuring value itself

and initiate the conversation we hope to have with you through future issues of this publication as well as when we have occasion to meet with you.

### **The global financial crisis and the complexities of value measurement**

The huge exposure that triggered the global financial crisis and brought the world's most powerful financial institutions to the brink of failure was largely about measuring value.

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Some see the global crisis as a regulatory failure, but ultimately it was a lack of critical information and agreement on the value of new and complex credit products in markets that relied on them

Credit products largely unknown outside of specialist circles, notably Credit Default Swaps (CDS), Collateralised Debt Obligations (CDOs), and mortgage-backed securities (MBS), were highly leveraged, had little exposure to open markets, and were backed by assets several steps removed, so their ultimate collateral was not transparent.

How owners of such assets should account for them became an issue, giving rise to a detailed discussion of Fair Value Accounting (FVA) and several changes in regulation and accounting guidance.

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## The FVA accounting discussion is based on a simple idea, but consistent and successful implementation of it is quite complicated

In the complex, globalised world of asset trading, with rapid swings in long and short inventories, when enough investors worry that a derivative will lose value, round-the-clock trading and fast execution of huge transactions virtually guarantee that the market value of some assets will be volatile. The credit crisis and urgent restructuring of financial companies forced asset sales under highly imperfect conditions, crushing prices of credit products that existed in massive amounts on the books of banks and insurers, and destroying value now estimated by the IMF to exceed US\$4 trillion.

### The future: improving the measurement of value

The core service of Deloitte China is to provide as clear a picture of asset values as possible to corporate executives, investors, and regulators. This has historically been the core service of accounting, auditing, and financial services firms. Around this, related services are about growing and preserving value, through efficient operations, taxation, and controls.

The global financial crisis has stimulated a huge amount of discussion of these issues in the media, among professionals, and in channels of communication between professional services firms and their clients. We believe the more clarity and discussion that is had around these topics the better. They are important not only to business but to the billions of people around the world who have savings, investments, or other assets.

This is a historic mission with the nature of the task still changing. For example, Deloitte's historic core service, auditing, is very different today from ten years ago. Auditing is changing now, and in the future it will continue to evolve.

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Today a reliable presentation of enterprise value and performance requires a combination of traditional accounting techniques enhanced by valuation, forensic, and actuarial examination, then refined and validated through the judgement of experts with specific industry and geographic expertise

Integrating several tools, techniques, and views of value enables us to improve the accuracy of our measures.

We live in a world of national governments and transnational businesses, and IT-enabled product innovation and global trading dynamics. We face increasingly intricate situations that demand increasingly sophisticated approaches.

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Multinational businesses are very different today from even ten years ago. Fair Value Accounting procedures are really only one of many changes we must understand and implement.

In the real world marketplace, we face complex new issues in international taxation, currency adjustments, and capital flows that require constant refinement and improvement in our services. Moreover, although some of the credit products thought to be related to the financial crisis will not exist in the future, innovation of financial products will continue, even speed up. In China, for example, we expect to see fast growth in new instruments to finance enterprises, new kinds of funds, and new kinds of trade finance and settlement.

There is a new equity market opening up, challenges in harmonising existing markets, domestic and cross-border currency issues are multiplying, and the calculations, contracts and other instruments around international trade and investment will become both more efficient and more complicated. Through mergers and acquisitions enterprises are getting larger, with huge footprints and operation and control challenges. The corporate bond market is expanding fast, and new variations of corporate debt will emerge.

Innovation brings new business opportunity and new efficiency, but it also brings new risk.

Deloitte China is preparing to meet client needs around these complex issues. In our view, improving ways to measure value will be a pillar of a recovered global financial system and of productive, efficient, and stable development of financial services, products and markets in China. Declared asset values will need to win the confidence of countries, companies, and individuals. For this to happen, Deloitte's view is that businesses will need to develop techniques, technologies and a judgement sense that are all honed for the complex globalised world of which we are all part, while staying intelligible to their individual as well as corporate and institutional investors. Professional services firms such as Deloitte will need to do the same and, in fact, need to be ahead of the curve to add value to their clients. We will be addressing significant market developments in future issues of Measuring Value with exactly this in mind.

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As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We also provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

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