

## **Speech of Marko Kranjec, The Governor of the Bank of Slovenia**

Ladies and gentlemen, dear participants and guests,

It is a great honour to address the 35th Annual Congress of the European Accounting Association that took place in the past few days in Slovenia. I would especially like to congratulate the organizers of this important event, the Faculty of Economics of the University of Ljubljana, its Dean prof. Dušan Mramor, and his colleagues, for a remarkable efficiency in organizing this Congress, and putting it through to a successful conclusion. I am sure that the ideas, deliberations and conclusions of this event will contribute to better understanding, among professionals and the general public of the importance of accounting and auditing profession in daily business decisions as well as in strategic decisions over the medium and longer term.

I understand that the Congress focused on a broad range of topics, dealing with Auditing, Financial analysis, Financial Reporting, Accounting and Governance, Accounting and Informations Systems, Management Accounting, Public sector Accounting, Social and Environmental Accounting, Taxation, and, last but not least, Accounting Education. There were 11 Symposia covering different subjects. Not being myself a specialist in this field (or fields) I have to admit that browsing through the collected abstracts of the Congress I was surprised to learn that accounting profession penetrated into fields as diverse as neurology and political sciences. It is humbling to realize how deeply a profession can dig into the problems of the real world, and, hopefully, contribute to solving them.

Belonging to a generation in which accounting was much less sophisticated than today, I can not resist the temptation to quoting two outstanding and widely known financial experts commenting accounting profession:

Alan Greenspan (former Chairman of the FED): “It has been my experience that competency in mathematics, both in numerical manipulations and in understanding of its conceptual foundations (i. e. accounting), enhances a person's ability to handle more ambitious and qualitative relationships that dominate our day-to-day financial decision making”. Please, remember the words: numerical manipulations and qualitative relationships!

Warren Buffet (no need to introduce him): “Managers thinking about accounting should never forget one of A. Lincoln's favorite riddles: How many legs does a dog have if you call his tail a leg? The answer: Four, because calling a tail a leg does not make it a leg”.

What is my understanding of these comments?

It is that accounting is by definition an imperfect language that should be treated with caution and prudence. It deals essentially with the past but has important consequences for the future. Accounting is a powerful, yet potentially dangerous weapon, if used inappropriately. One should never depart too far astray from the reality, because the reality shall, sooner or later get back, and show the mistakes of our fancy or our delusions.

I'm sure you realize that I am here referring to the financial crisis that has been with us since 2007. As a regulator and supervisor of the banking sector, Bank of Slovenia, had had ample opportunity to deal with accounting delusions and practices that have not always reflected a reality. We all know the results, all over the world, and we still grapple with the consequences.

With the risk of oversimplifying, I would argue that the best contribution accounting profession can make to sound business decisions is to narrow the differences of opinion among decision makers and standards setters about intrinsic value, book value and market value of assets and liabilities. This may sound simple, but it is extremely difficult in practice. According to my understanding, international bodies like FASB and IASB as standard setters have been debating differences between accounting standards (GAAP and IAS) for many years and it seems that a satisfactory harmonization is still not in sight. EAA's Financial Reporting Standards Committee has been also active in evaluating the effects of standards.

Within the European Union I should also mention the de Larosiere report that specifically addressed the accounting standards and rules, and pleaded for the neutrality of standards in order not to promote pro-cyclical behavior or to discourage long-term investments. It also proposed that IASB and other standard setters should clarify and agree on a common, transparent methodology for the valuation of assets in illiquid markets. De Larosiere report was fully endorsed by the ECOFIN Council in 2009.

I do not intend to elaborate further these difficult topics. I'm sure you have dealt with many of them in the finest possible technical detail during the Congress in Ljubljana. This is how a professional knowledge is enhanced and disseminated to the interested public.

You might have noticed that I kept the discussion of the current economic and financial situation in Slovenia and Europe at a minimum. The reason is simple: in the world of extreme uncertainty, it would be imprudent to pontificate about the future. Slovenia as member of the EU and the Euro zone has until now

escaped the turbulences to which some of the so called peripheral countries have been exposed. However, we are fully aware that serious efforts will be needed to consolidate our public finances and to reduce budgetary deficit. Being part of international financial system, our banking system also intensely feels the consequences of financial crisis, particularly on the funding side. New regulatory requirements, like Basel 3, will confront the banks with the task to augment their capital in order to bolster their resilience. My institution, as a member of the Euro system and as national regulator and supervisor will do all that is necessary to successfully contribute to these tasks. To use the accounting language on the lighter tone, we will do whatever is needed to avoid the situation where we as supervisors would be compelled to admit that the balance sheets reflect the reality where: On the left is nothing right, and on the right is nothing left.

Thank you for your attention.