

ANALYSIS OF AMG'S QUARTERLY BUDGET REPORTS: A BRIEF CASE ON EXAMINER RESPONSIBILITIES AND REQUIREMENTS

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ABSTRACT

This study examines the role of financial reporting in key areas such as fair value measurement, asset securitization, derivatives, and credit loss provisioning during the Financial Crisis. Given that banks were at the heart of the crisis, our analysis primarily explores the impact of their financial reporting practices.

Our findings indicate that fair value accounting had minimal influence on the crisis. However, the lack of transparency in asset securitization and derivative reporting may have hindered investors' ability to accurately assess the value and risks of bank assets and liabilities. Although the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have taken significant steps to enhance disclosures related to asset securitizations, we believe that the IASB's Exposure Draft approach—which requires banks to recognize all assets and liabilities retained post-securitization—more accurately reflects the economic realities of these transactions.

Regarding derivatives, we advocate for increased transparency through more detailed disclosures, sensitivity analysis of fair values in response to market risk factors, and a risk-parity approach to help investors better understand leverage implications in derivative contracts.

Furthermore, our study highlights the distinct objectives of financial reporting and banking regulations. Enhancing financial disclosures to improve capital market transparency does not necessarily align with regulatory changes aimed at maintaining financial system stability. We explore how credit loss provisioning may have contributed to the crisis by amplifying procyclicality and weakening market discipline.

Ultimately, while accounting standard setters and bank regulators should collaborate on these issues, ensuring financial system stability remains the responsibility of regulators, not accounting bodies.

Keywords: Quarterly Budget Reports, Financial Analysis, Examiner Responsibilities, Regulatory Compliance, Financial Reporting Standards, Risk Assessment, Corporate Governance.

INTRODUCTION

Financial crises have recurred throughout history, yet the 2007–2009 financial crisis was an unprecedented shock, often regarded as the most severe economic downturn since the Great Depression of the 1930s. The crisis threatened the global financial system with collapse, necessitated large-scale government bailouts of uninsured financial institutions, led to sharp declines in stock markets, and caused widespread economic disruption (Mandelbrot et al., 1968). It resulted in restricted corporate lending, reduced consumer credit, and lower investment in real sectors, ultimately imposing significant costs on the economy. Estimates

suggest the crisis led to wealth losses ranging between \$15 and \$30 trillion—equivalent to 100% to 190% of the U.S. GDP in 2007—highlighting its profound impact.

Despite extensive analysis, there remains no consensus on the root causes of the crisis (Kolmogorov, 1940). However, a combination of global macroeconomic factors and U.S. monetary policy contributed to an environment of prolonged financial sector growth and profitability. Financial institutions, encouraged by technological advancements and the rise of complex financial instruments, developed an increasing reliance on high-risk securities, including subprime mortgages (Rezaee, 2002). The expansion of the subprime mortgage market and the securitization of risky assets fueled a financial boom, but as defaults rose, investor confidence collapsed, triggering the crisis.

Budget reports play a crucial role in financial management, offering insights into an organization's economic health and operational efficiency. AMG, a mid-sized manufacturing company, releases quarterly budget reports to assess its financial performance, track expenditures, and ensure alignment with its strategic goals. This analysis examines AMG's budget reports and highlights the responsibilities and requirements of financial examiners in evaluating these reports (International Financial Reporting Standards (IFRS) Foundation, 2021).

THE 2007–2009 FINANCIAL CRISIS: CAUSES, IMPACTS, AND REGULATORY RESPONSES

Early signs of distress included investor withdrawals, rising risk premiums, and increased collateral requirements for secured borrowing (Weygandt et al., 2019). Initially, U.S. regulators and government officials perceived these developments as a liquidity crisis, prompting them to introduce liquidity facilities and extend financial protections to mitigate market instability. However, as the crisis persisted, it became evident that liquidity shortages stemmed from deeper concerns, including counterparty risks and insolvency fears. The declining credit quality of subprime mortgage-backed securities and other asset-backed instruments exacerbated these risks, prompting further regulatory interventions aimed at managing systemic vulnerabilities (Bianchi et al., 2009).

While these government measures played a crucial role in stabilizing the financial system, they also raised concerns about long-term implications, particularly the potential for moral hazard. The expectation that governments would extend future financial safety nets to uninsured sectors may encourage excessive risk-taking in financial markets. The crisis, therefore, represents a dynamic process of evolving regulatory beliefs, where initial assumptions about the crisis's causes were challenged by unfolding events, leading to policy adaptations. The effectiveness and long-term consequences of these regulatory responses remain subjects of ongoing debate and analysis (Brigham et al., 2021).

Understanding AMG's Quarterly Budget Reports

AMG's quarterly budget reports provide a snapshot of the company's financial position, detailing revenue, expenses, cash flow, and profit margins. These reports serve as a financial roadmap, allowing stakeholders to monitor budget variances, identify cost inefficiencies, and make informed decisions. Key components of these reports include (Otranto, 2008):

1. Revenue Analysis – Examining income sources and comparing projected versus actual revenue.
2. Expense Tracking – Evaluating operating costs, production expenses, and administrative overhead.
3. Profitability Assessment – Calculating gross and net profit margins to measure financial performance.
4. Cash Flow Management – Analyzing cash inflows and outflows to ensure liquidity.

5. **Variance Analysis** – Identifying discrepancies between budgeted and actual figures to assess financial discipline.

A well-prepared quarterly report helps AMG's management assess operational efficiency, adjust financial strategies, and ensure long-term sustainability. However, for these reports to be reliable, financial examiners play a key role in their evaluation.

Examiner Responsibilities in Budget Analysis

Financial examiners are responsible for ensuring the accuracy, compliance, and transparency of AMG's budget reports. Their primary duties include (Bianchi et al., 2014):

1. **Reviewing Financial Data:** Examiners analyze AMG's financial statements to verify the accuracy of reported figures. They cross-check revenue and expense entries to detect inconsistencies, errors, or potential misrepresentations.
2. **Ensuring Regulatory Compliance:** AMG must comply with industry regulations, accounting standards (such as GAAP or IFRS), and corporate governance policies. Examiners verify whether the budget reports adhere to these standards and highlight any compliance risks.
3. **Conducting Risk Assessments:** Examiners identify financial risks such as overspending, revenue shortfalls, or liquidity challenges. By assessing financial trends and budget variances, they help AMG's management develop risk-mitigation strategies (Fraser et al., 2016).
4. **Assessing Internal Controls:** Examiners evaluate AMG's internal control mechanisms to prevent fraud, financial mismanagement, and unauthorized expenditures. Strong internal controls ensure budget integrity and financial accountability.
5. **Recommending Financial Improvements:** Based on their findings, examiners provide recommendations to improve AMG's financial reporting process, cost management, and budgeting efficiency. These recommendations may include optimizing operational costs, enhancing revenue forecasting, or adopting better financial controls.

Requirements for Financial Examiners

To effectively analyze AMG's budget reports, financial examiners must possess:

1. **Strong Accounting Knowledge** – Proficiency in financial reporting standards, budget analysis, and cost accounting.
2. **Analytical and Critical Thinking Skills** – Ability to interpret financial data and assess financial risks.
3. **Attention to Detail** – Ensuring accuracy in budget reports and detecting financial discrepancies.
4. **Regulatory Expertise** – Understanding compliance requirements and industry regulations.
5. **Communication Skills** – Presenting findings and financial recommendations to stakeholders.

CONCLUSION

These strategy intercessions were ex post measures to manage a progression of surprising occasions. In any case, what might be said about the ex risk administrative drives that might have made this emergency more outlandish? The conversation of the causal occasions in Segment 2 reveals insight into what might have happened before 2006, yet a greater conversation of how guideline can upgrade banking steadiness shows up in Thakorin 2014. Basically, apparently what we saw was a gigantic disappointment of cultural gamble the executives, and it happened on the grounds that a supported time of productive development in banking made a misguided feeling of safety among all; the way that banks endure the blasting of the dotcom bubble additionally built up this confidence in the capacity of banks to endure stuns and endure beneficially. This drove legislators to authorize regulation to additional the fantasy of all inclusive house buying that might have urged hazardous bank loaning to exorbitantly utilized consumers.⁵ Besides, it made banks work with less capital than was reasonable and to stretch out advances to unreasonably utilized shoppers, made rating organizations misjudge the genuine dangers, and drove financial backers to request ridiculously okay premia. Two straightforward administrative drives might

have made a less emergency inclined monetary framework — essentially bringing capital prerequisites up in the business and shadow banking frameworks during the halcyon precrisis years and setting up administrative components — either out and out prohibitions or cost based promptings — to guarantee that banks zeroed in on starting and securitizing just those home loans that elaborate financially sound borrowers with adequate value. AMG's quarterly budget reports serve as a vital financial tool, guiding decision-making and resource allocation. Financial examiners play a critical role in ensuring these reports are accurate, compliant, and reflective of the company's true financial standing. Their expertise in financial analysis, risk assessment, and regulatory compliance helps AMG maintain financial stability and transparency. As businesses continue to navigate economic uncertainties, the role of financial examiners remains essential in promoting fiscal responsibility and sustainable growth.

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