
Financial Statement Analysis and Valuation Conference

Accounting for Uncertainty and Risk: Investor, Management, and Policy Implications

Why?

Uncertainty versus Risk?

Questions and Takeaways

	<u>Risk</u>	<u>Uncertainty</u>
<i>Measurable</i>		
<i>Manageable</i>		
<i>Profit Generating</i>		

Uncertainty versus Risk

““Risk” means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character; and there are far reaching and crucial differences depending on which of the two is really present and operating”

“A measurable uncertainty, or “risk” properis so far different from an unmeasurable one that it is not in effect an uncertainty at all...It is this “true” uncertainty (the unmeasurable type) and not risk....which forms the basis of a valid theory of profit”

“Uncertainty is one of the fundamental facts of life. It is .. ineradicable from business decisions”

“Business decisions....deal with situations that are far too unique...for any sort of statistical tabulation to have any value for guidance. The conception of an objectively measurable probability or chance is simply inapplicable....it appears to be meaningless to speak of the probability in an objective sense that a judgment is correct.”

From “Risk Uncertainty and Profit” Frank H. Knight 1921

Questions and Takeaways

	<u>Risk</u>	<u>Uncertainty</u>
<i>Measurable</i>	☑	?
<i>Manageable</i>	?	?
<i>Profit Generating</i>	?	?
<i>Education</i>	☑	?
<i>Research</i>	☑	?
<i>Policy</i>	?	?

Outline of the Sessions

- ❖ *Experiencing Uncertainty and Risk*
- ❖ *What We Learn From Academic Work on Assessing Uncertainty and Risk*
- ❖ *Coping With Uncertainty and Risk*
- ❖ *The Impact of Fair Value Accounting for Uncertainty and Risk During Crisis*
- ❖ *How the Army Analyzes and Copes With Uncertainty and Risk*
- ❖ *An Academic Review of Liquidity and Capital*
- ❖ *Capital and Liquidity Requirements in Practice*

Experiencing Uncertainty and Risk

❖ *Neal Shear*

❖ *Steve Girsky*

❖ *Steve Galbraith*