

TFRS Insights - English version

2009 Round-Up issue (January 2010)

Change is coming



Deloitte Touche Tohmatsu Jaiyos proudly presents an overview of TFRS and IFRS during 2009, together with changes and critical issues impacting accounting standards. This edition also includes the requirements of financial reporting in Thailand and ASEAN, as well as recent IFRS developments to get you ready for the new dimension of Thai Accounting Standards.

In this TFRS Insights, you will be acquainted with:

- The direction of TFRS enforcement;
- Thai Accounting Guidelines (TAGs) issued and effective in 2009;
- IFRS Adoption in ASEAN; and
- IFRS developments during 2009

The direction of TFRS enforcement

Generally, the process of issuing Thai Accounting Standards (TASs) and Thai Financial Reporting Standards (TFRSs) in accordance with the Accounting Act, B.E. 2543 (2000) can be summarised as follows:

1. The Board of Supervision of Accounting Professions, consisting of representatives from both governmental and private sectors including the president of the Federation of Accounting Professions (FAP), sets the framework for developing the accounting profession and enforcing TASs and TFRSs. FAP is responsible for implementing such agreed framework.
2. The FAP, by the approval from the Board of the Federation of Accounting Professions, reviews such framework and assigns the Accounting Standard Setting Committee to draft the relevant accounting standards. Normally, TASs and TFRSs are based on International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS).
3. The Accounting Standard Setting Committee establishes the working group, which normally receives cooperation from the Big Four accounting firms to study and draft the Thai version of the IAS and IFRS. The representatives from the Accounting Standard Setting Committee is also a part of the working group and responsible for reviewing the output of each group before submission to the Accounting Standard Setting Committee Meeting for further consideration.
4. The Accounting Standard Setting Committee posts and presents the draft standards approved during the previous process for public hearing by asking cooperation from governmental and private organisations which will be affected by the adoption of relevant standards. The draft standards will be amended based on opinions and suggestions received as appropriate. Some standards may be presented again for public hearing for a focused group in order to study and discuss in detail relating to the local options that may be different from the requirements of the original IAS and IFRS.
5. The working group summarises and submits a list of problems and suggested solutions gathered from the discussion among relevant parties to the Accounting Standard Setting Committee for further consideration and conclusion on the implementation of TAS and TFRS in Thailand together with local options, if any. The resolution will then be submitted to the Screening Committee of the FAP for further suggestions before summarizing the related draft TAS and TFRS.
6. The Screening Committee of the FAP submits the opinions as well as the draft TAS and TFRS, agreed with the Accounting Standard Setting Committee, to the Board of the Federation of Accounting Professions.
7. The Board of the Federation of Accounting Professions discusses with the Screening Committee and the Accounting Standard Setting Committee to come to the mutual conclusion of the FAP on the draft TAS and TFRS, including any local options for Thailand.
8. The Board of the Federation of Accounting Professions submits the resolved draft TAS and TFRS, including the local option for Thailand, to the Board of Supervision of Accounting Professions for consideration and approval.
9. The Board of Supervision of Accounting Professions considers and returns the approved draft TAS and TFRS to the FAP for announcement in the Royal Gazette according to the legal process. The Board of the Federation of Accounting Professions and the Accounting Standard Setting Committee will reconsider and provide the appropriate resolutions to the Board of Supervision of Accounting Professions for those drafts that the Board of Supervision of Accounting Professions has additional concerns or comments for reconsideration until those drafts are approved according to the legal process.

According to the plan announced by the FAP, which is currently in the process of obtaining approval from the Board of Supervision of Accounting Professions, the enforcement of TAS and TFRS converging to IAS and IFRS can be summarised as follows:

1. The FAP will enforce TAS and TFRS version revised in 2009 to all listed companies in the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (MAI), including the public limited companies not listed in those two markets. Also, the FAP will allow non-public entities to elect an exemption of some TAS and/or TFRS.
2. TAS and TFRS version revised in 2009 is equivalent to the version of IAS and IFRS pronouncements as issued at 1 January 2009.
3. Anticipated effective dates for TAS and TFRS version revised 2009 are as follows:

TAS/TFRS	Topic	Effective date	Remark
TAS 1	Presentation of Financial Statements	1 January 2011	(1)
TAS 2	Inventories	1 January 2011	
TAS 7	Statement of Cash Flows	1 January 2011 ⁽⁶⁾	
TAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1 January 2011	
TAS 10	Events After the Reporting Period	1 January 2011	
TAS 11	Construction Contracts	1 January 2011	
TAS 12	Income Taxes	1 January 2013 ⁽⁶⁾	
TAS 16	Property, Plant and Equipment	1 January 2011	(2)
TAS 17	Leases	1 January 2011	
TAS 18	Revenue	1 January 2011	
TAS 19	Employee Benefits	1 January 2011 ⁽⁶⁾	(3)
TAS 20	Accounting for Government Grants and Disclosure of Government Assistance	1 January 2012	
TAS 21	The Effects of Changes in Foreign Exchange Rates	1 January 2011	(4)
TAS 23	Borrowing Costs	1 January 2011	
TAS 24	Related Party Disclosures	1 January 2011 ⁽⁶⁾	
TAS 26	Accounting and Reporting by Retirement Benefit Plans	1 January 2011 ⁽⁶⁾	
TAS 27	Consolidated and Separate Financial Statements	1 January 2011 ⁽⁶⁾	
TAS 28	Investments in Associates	1 January 2011 ⁽⁶⁾	
TAS 29	Financial Reporting in Hyperinflationary Economies	1 January 2011	
TAS 31	Interests in Joint Ventures	1 January 2011 ⁽⁶⁾	
TAS 32	Financial Instruments: Presentation	1 January 2013	
TAS 33	Earnings per Share	1 January 2011	
TAS 34	Interim Financial Reporting	1 January 2011	
TAS 36	Impairment of Assets	1 January 2011 ⁽⁶⁾	
TAS 37	Provisions, Contingent Liabilities and Contingent Assets	1 January 2011	
TAS 38	Intangible Assets	1 January 2011	
TAS 39	Financial Instruments: Recognition and Measurement	1 January 2013	
TAS 40	Investment Property	1 January 2011	
TAS 41	Agriculture	To be announced	
TFRS 1	First-time Adoption of International Financial Reporting Standards	To be announced	
TFRS 2	Share-based Payment	1 January 2011	
TFRS 3	Business Combinations	1 January 2011	
TFRS 4	Insurance Contracts	1 January 2013	
TFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1 January 2011	
TFRS 6	Exploration for and Evaluation of Mineral Resources	1 January 2011	
TFRS 7	Financial Instruments: Disclosures	1 January 2013 ⁽⁶⁾	
TFRS 8	Operating Segments	1 January 2013 ⁽⁶⁾	

Remark:

- (1) In case an entity adopts TAS 1 (Revised 2009) "Presentation of Financial Statements" in 2011, the entity can elect not to apply paragraph 39.3 of TAS 1 (Revised 2009). That is, for the first reporting period that the entity applies TAS 1 (Revised 2009), it can present only two statements of financial position, which are statements of financial position as at: (1) the end of the current period (2011) and (2) the end of the previous period (2010).
 - (2) On the adoption of TAS 16 (Revised 2009) "Property, Plant and Equipment", an entity applying the revaluation model for subsequent measurement and adopting the FAP's announcement No. 25/2549 dated 11 October 2006 re: "Accounting for Revaluation Model", can still elect to treat those assets in accordance with the FAP's announcement No. 25/2549 until those assets are not beneficial to the entity or the entity changes its accounting treatment to the cost model.
 - (3) For the first reporting period that an entity applies TAS 19 (Revised 2009) "Employee Benefits" in 2011, if the transitional liability is more than the liability that would have been recognised at the same date under the entity's previous accounting policy or if the entity has never recognised such liability, the entity can elect to recognise the incremental portion of the liability in accordance with TAS 19 (Revised 2009) "Employee Benefits" as follows:
 1. immediately in profit or loss of statement of comprehensive income or;
 2. as an expense on a straight-line basis over up to five years from the date of adoption (2011) or;
 3. by adjusting the brought forward retained earnings of the accounting period 2011 or;
 4. retrospectively.
 - (4) Public entities may elect to apply the requirement regarding functional currency in accordance with TAS 21 (Revised 2009) "The Effects of Changes in Foreign Exchange Rates" for the accounting periods beginning on or after 1 January 2013. Also, the requirement regarding functional currency in accordance with TAS 21 (Revised 2009) will be exempted for non-public entities.
 - (5) An entity still has to assess the impairment of assets in accordance with the Accounting Framework regarding the value of assets even though TAS 36 (Revised 2009) "Impairment of Assets" is exempted for non-public entities.
 - (6) Non-public entities can elect an exemption of the noted TAS and/or TFRS.
4. The FAP has renumbered TAS and TFRS to correspond with IAS and IFRS as noted in the FAP's Notification No.12/2552 dated 15 May 2009. Furthermore, the FAP is planning to issue another Notification to renumber the following TAS, which are not directly adapted from IAS.

Previous TAS topic and no.	New TAS topic and no.
TAS 11 Doubtful debt and bad debt	TAS 101 Doubtful debt and bad debt
TAS 26 Revenue Recognition for Real Estate Business	TAS 102 Revenue Recognition for Real Estate Business
TAS 30 Disclosures in the Financial Statements of Bank and Similar Financial Institutions	TAS 103 Disclosures in the Financial Statements of Bank and Similar Financial Institutions
TAS 34 (Revised 2002) Accounting for Troubled Debt Restructurings	TAS 104 (Revised 2002) Accounting for Troubled Debt Restructurings
TAS 40 Accounting for Investments in Debt and Equity Securities	TAS 105 Accounting for Investments in Debt and Equity Securities
TAS 42 Accounting for Investment Companies	TAS 106 Accounting for Investment Companies

5. The FAP is in the process of drafting Thai Accounting Standard Interpretations (TSI) and Thai Financial Reporting Standard Interpretations (TFRI) based on the SIC (Standing Interpretations Committee) and IFRIC (International Financial Reporting Interpretations Committee) Standards, respectively. Those TSI and TFRI are expected to become effective for financial statements for the accounting periods beginning on or after 1 January 2011. The draft versions are expected to be published during the first quarter of 2010 at the same time with the draft TAS and TFRS version revised in 2009.

Thai Accounting Guidelines (TAGs) issued and effective in 2009

TAG for leasehold right

The objective of this TAG is to determine the accounting treatment for leasehold rights distinctly and consistently for application.

1. Accounting treatment for the leasehold right of land

1.1. Leasehold right of land which is not classified as an investment property under TAS 40 "Investment Property"

In case a lessee enters into a rental contract for land which is not an investment in property by paying cash to acquire the right to rent the land or paying rent in advance, whatever it is called:

- (1) the lessee should not recognise the amount paid as an intangible asset.
- (2) the lessee should recognise the amount paid as a prepaid rental and amortise such amount over the lease term as if it was an operating lease.
- (3) the lessee should not include the leasehold right as a land in accordance with TAS 16 "Property, Plant and Equipment".
- (4) the lessee cannot revalue such leasehold right of land.
- (5) the lessee should assess an impairment of leasehold right when there is an impairment indicator.

1.2. Leasehold right of land which is classified as an investment property under TAS 40 "Investment Property"

When TAS 40 "Investment Property" becomes effective, the lessee may elect to classify the leasehold right of land under an operating lease as an investment property if it meets the criteria specified in TAS 40.

- (1) In case the lessee recognises the leasehold right of land as an investment property, the lessee should measure such leasehold right using the fair value model.
- (2) In case the lessee does not recognise the leasehold right of land as an investment property, the lessee should recognise such leasehold right as a prepaid expense using the cost model and amortise such amount over the lease term.

2. Accounting treatment for building on leased land

2.1. Leasehold right of building which is not classified as an investment property under TAS 40 "Investment Property"

In case the land lease contract requires the lessee to pay money to construct the building and transfer the ownership of building to the owner of the land, either upon the completion of construction or the end of contract:

- (1) the lessee should not recognise the construction cost as a building but should consider that the lease contracts of land and building are either operating or finance leases.
- (2) if the lease contracts of land and building are in the same contract, the lessee should separate the land lease and building lease components by using the fair value of leasing each component. The fair value used for bifurcating is the market rental rate.
- (3) if the lessee has objective evidence to ensure that the lease term covers the major part of the useful life of the building, such lease should be treated as a finance lease. Therefore, the lessee can recognise such building as its fixed asset by the amount equal to the construction cost deducted by the amount allocated as land rental. Also, the lessee can revalue such building in accordance with TAS 16 "Property, Plant and Equipment". For the amount

allocated as land rental, the lessee recognises it as a prepaid rental and amortises such amount over the lease term. The lessee cannot revalue such prepaid rental.

Example : Given that;

- The lessee has a building rental contract with the condition that the lessee has to construct a building and transfer the ownership of the building to the lessor of the land.
- The fair value of the land rental per the contract is Baht 560 million.
- The fair value of the market rental rate of the land is Baht 960 million.
- The lessee anticipates incurring construction cost with the fair value of Baht 1,000 million.
- The lease term covers the major part of the useful life of the building.

Therefore, the lessee has to recognise the difference between a) the fair value of the market rental rate of the land and b) the fair value of the land rental per the contract of Baht 400 million (960 - 560) as a prepaid land rental and amortise such amount over the lease term. The lessee cannot revalue such amount. The remaining of the fair value of construction cost of Baht 600 million (1,000 – 400) is recognised as a building in accordance with TAS 16 “Property, Plant and Equipment” and the lessee can elect to revalue such amount in accordance with TAS 16.

- (4) In case the lease term does not cover the major part of the useful life of the building and the long-term lease contract of the building indicates that the rental rate will be increased periodically based on the market rental rate, in economical substance all risks and rewards of the asset belong to the lessor. Such lease should be regarded as an operating lease. The lessee should recognise the construction cost of building as a prepaid expense and amortise such amount over the lease term of land. The revaluation model cannot be applied.

2.2. Leasehold right of a building which is classified as an investment property under TAS 40 “Investment Property”

When TAS 40 “Investment Property” becomes effective;

- (1) the lessee may recognise a building under an operating lease as an investment property if it meets the criteria specified in TAS 40 and should measure such leasehold right using the fair value model in accordance with TAS 40.
- (2) a building under a finance lease which is regarded as an investment property can be measured using either the cost or fair value model as specified in TAS 40.
- (3) the lessee may elect not to classify such leasehold right of a building as an investment property even though it meets the criteria of investment property recognition as specified in TAS 40. The lessee should recognise such leasehold right as a part of property, plant and equipment under TAS 16.

3. Revaluation of building

In case the lessee measures the value of a building using the revaluation model, the lessee should apply the market approach determined by an independent appraiser as a first priority. However, if it can be proved that such asset has no market price as it is of such a specialised nature and rarely traded except that it is sold together with the sale of a business, the lessee may apply the depreciated replacement approach or the income approach.

However, the appraised value obtained from the income approach may include components of other assets which are prohibited for the recognition or revaluation by accounting standards such as trademarks, customer lists or abilities of managements, which are internally generated intangible assets. Therefore, if the lessee applies the income approach, it has to reliably separate the value of building from the value of those intangible assets that are prohibited for the recognition or revaluation by the accounting standards. Otherwise, the lessee has to apply the depreciated replacement approach instead. Moreover, if the lessee applies the income approach, it has to revalue the building periodically every 3-5 years.

TAG for business combinations under common control

The objective of this TAG is to determine the financial reporting treatment for business combinations under common control distinctly and consistently for application. A business combination under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory¹. The accounting treatment is as follow.

- (1) In case two entities under common control have acquired each other's interest reaching the level of having significant influence or having the power to govern the financial and operating policies, the transaction should be treated similar to the pooling of interests method. The acquirer should recognise assets and liabilities of the acquiree by using the acquirer's interest on the carrying amount of the acquiree on the date having the business combination under common control.
- (2) In case two entities under common control have acquired each other's interest not reaching the level of having significant influence or having the power to govern the financial and operating policies, the acquirer should recognise an investment using the cost method.
- (3) Expenses related to the business combination under common control including cost and loss occurred from combining the operation of the two entities, are accounted for as expenses immediately in the period business combination under common control occurs in.
- (4) The difference between the cost of business combination under common control and the acquirer's interest on the carrying amount of the acquiree is recognised as an item in equity and will be derecognised when the investment in the acquiree under common control is sold.

¹ The Securities and Exchange Commission of Thailand (SEC) defines the transitory control as the acquisition of investment in a subsidiary by its parent with an intention to dispose of such investment within twelve months. Also, the parent must have evidence to support such intention. Note that this definition does not exist in TFRS 3 Business Combinations.

IFRS Adoption in ASEAN

The International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) are continuing to gain wider acceptance by standard-setters in the Association of Southeast Asian Nations (ASEAN). Below is an overview of the financial reporting framework of the respective jurisdiction in ASEAN, and where they are in terms of alignment with the IFRSs.

Indonesia

The standard-setting body in Indonesia is the Financial Accounting Standards Board (Dewan Standar Akuntansi Keuangan or DSAK) under the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia or IAI). Under Indonesian law, both public and private companies must comply with the accounting standards issued by the DSAK-IAI. Up to 31 December 2008, DSAK-IAI has issued 62 Statements of Financial Accounting Standards (Pernyataan Standar Akuntansi Keuangan or PSAKs) which consist of 55 PSAKs for conventional transactions and 7 PSAKs for Syari'a transactions, 8 Interpretation of Financial Accounting Standards (Interpretasi Standar Akuntansi Keuangan or ISAK), and 3 Technical Bulletins. On 23 December 2008, the IAI issued a formal statement announcing its plan to have Indonesian GAAP fully converged with the IFRSs by 1 January 2012.

Malaysia

Companies registered in Malaysia are required to prepare statutory financial statements in accordance with the approved accounting standards issued by the Malaysian Accounting Standards Board (MASB). Foreign companies listed on a stock exchange in Malaysia may prepare financial statements in accordance with certain internationally recognised accounting standards such as the IFRSs. MASB has two sets of approved accounting standards, namely:

- MASB Approved Accounting Standards for Entities Other than Private Entities - Financial Reporting Standards (FRSs); and
- MASB Approved Accounting Standards for Private Entities - Private Entity Reporting Standards (PERSs).

On 1 August 2008, the Financial Reporting Foundation which oversees the operations of MASB and MASB issued a statement on their plan for full convergence of its FRSs with IFRSs as issued by IASB by 1 January 2012. The staff of MASB has issued a proposed calendar which provides a tentative adoption timeline of IFRSs issued by IASB as at 12 March 2009. Private entities that apply PERSs will continue to do so until such time the MASB decides otherwise.

Philippines

In response to the complexity and changing global business landscape and stricter regulations, the Philippines Financial Reporting Standards Council (FRSC) has moved towards full adoption of IFRSs since 2005. This development is supported by Philippine Regulatory bodies such as the Professional Regulations Commission (PRC) and the Securities and Exchange Commission (SEC), which require the application of the international standards in the preparation of financial statements by Philippine companies.

The Philippine equivalents to IFRSs are known as Philippine Financial Reporting Standards (PFRSs) and Philippine Accounting Standards (PASs). The FRSC also formed the Philippine Interpretations Committee (PIC) which issues implementation guidance on PFRSs. To date, the FRSC has issued the Philippines equivalents to most of the new/revised IFRSs that are effective through 2009.

Singapore

The Singapore Financial Reporting Standards (FRSs) are the prescribed accounting standards under the Singapore Companies Act. The FRSs are issued by the Accounting Standards Council (ASC), which is established by the Ministry of Finance. Foreign companies listed on Singapore stock exchange may prepare financial statements in accordance with certain internationally recognised accounting standards such as the IFRSs. The FRSs are closely modeled after the IFRSs, with certain modifications to effective dates and transitional provisions, the measurement requirements on properties revalued prior to a certain dates, and the exemption criteria for consolidation, equity accounting or proportionate consolidation.

To date, the ASC has adopted most of the recent revisions to IFRSs effective through 2009, except for IFRIC 15 Agreements for the Construction of Real Estate. In May 2009, the ASC has decided to fully converge the FRSs with IFRSs by 2012 for all Singapore-incorporated companies listed on the Singapore Stock Exchange.

Vietnam

All domestic companies, listed and unlisted, are currently required to use the Vietnamese Accounting Standards (VASs), which have been developed by the Ministry of Finance. Generally, the VASs were based on IASs that were issued up through 2003, though some modifications were made to reflect local accounting regulations and environment. None of the IASB's amendments to IASs nor new IFRSs have been adopted.

IFRS Development in 2009

This section provides information relating to IFRS development during 1 April 2009 to 31 October 2009.

IASB amends 12 IFRSs

This is the second annual improvement project and will affect 12 IFRSs. Most of the amendments are effective for annual periods beginning on or after 1 January 2010, with early adoption allowed. Most of the improvements deal with matters of detail and are not expected to have significant impact. There are, however, certain amendments that could result in significant changes in relevant circumstances. These amendments include, among others, reassessing the classification of long-term leases of land, and the current/non-current classification of liabilities that may be settled by the issue of equity instruments. There are also additional guidance for determining if revenue should be recognised gross or net, and clarification on the unit of accounting for goodwill test with reference to the application of IFRS 8 Operating Segments.

IASB publishes exposure draft on fair value measurement

The IASB has published an exposure draft (ED) of proposed guidance on how fair value should be measured where it is required by existing standards. The ED does not propose to extend the use of fair value measurements in any way. It would add disclosure requirements about how fair values were determined. If adopted, the proposals would replace fair value measurement guidance contained within individual IFRSs with a single, unified definition of fair value, as well as further authoritative guidance on the application of fair value measurement in inactive markets. The IASB's starting point in developing the exposure draft was the equivalent US standard, SFAS 157 Fair Value Measurements as amended. The proposed definition of fair value (FV) is identical to the definition in SFAS 157 and the supporting guidance is also largely consistent with US GAAP.

IASB proposes to amend IFRIC 14

The IASB has published an exposure draft of proposed amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The proposed amendments are aimed at correcting an unintended consequence of IFRIC 14. As a result of the interpretation, entities are in some circumstances not permitted to recognise as an asset some prepayments for minimum funding contributions. The ED proposes to correct the problem.

IASB amends IFRS 2, withdraws IFRIC 8 and IFRIC 11

The IASB amended IFRS 2 Share-based Payment to clarify the accounting for group cash-settled share-based payment transactions. The amendments clarify how an individual subsidiary in a group should account for some share-based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments make clear that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2–Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendments are effective for annual periods beginning on or after 1 January 2010 and must be applied retrospectively. Earlier application is permitted.

IASB issues IFRS for SMEs

The IASB has issued the IFRS for SMEs. This is the first set of international accounting requirements developed specifically for small and medium-sized entities (SMEs). It has been prepared on IFRS foundations but is a stand-alone product that is separate from the full set of International Financial Reporting Standards (IFRSs). The IFRS for SMEs has simplifications that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. Compared with full IFRSs, it is less complex in a number of ways, such as omitting topics that are not relevant to SMEs, allowing only the easier option where this is a choice, simplifying recognition and measurement principles, and requiring significantly less disclosures. It is suitable for all entities except those whose securities are publicly traded and financial institutions such as banks and insurance companies. It is up to each jurisdiction to determine which entities should use the standard. It is effective immediately on issue.

IASB issues ED on financial instruments classification and measurement

This ED is the first part of IASB's three-phase project to replace IAS 39 Financial Instruments: Recognition and Measurement. The Board decided to address classification and measurement of financial assets and financial liabilities first because they form the foundation of a standard on reporting financial instruments. Moreover, many of the concerns about IAS 39 that have been expressed during the financial crisis relate to its classification and measurement requirements. The IASB plans to finalise the classification and measurement proposals in time for non-mandatory application in 2009 year-end financial statements. The other two phases of the IAS 39 project are addressing Impairment and Provisioning and Hedge Accounting.

Additionally, the Board's project on Derecognition of Financial Instruments will also result in amendments to IAS 39. The IASB plans to complete the replacement of IAS 39 during 2010, although mandatory application will not be before January 2012. Some key features of this ED on Classification and Measurement include: requiring instruments with basic loan features and which are managed on a contractual yield basis to be measured using amortised cost and subject to impairment testing; the elimination of the categories of "held-to-maturity" and "available for sale"; and allowing an irrevocable election to measure certain equity investments at fair value through other comprehensive income (OCI) with any related dividend income also included in OCI.

The Board re-deliberated on the final IFRS. The Board agreed:

- to exclude financial liabilities from the scope pending further work;
- to eliminate bifurcation of embedded derivatives;
- that both classification conditions (basic loan features and managed on the contractual cash flow basis) are necessary for classification of a financial instrument measured at amortised cost and no hierarchy applies to them;
- to retain the requirements in IAS 39 for a fair value option if such designation eliminates or significantly reduces an accounting mismatch;
- to eliminate the cost exemption for unquoted equity instruments and provide additional guidance on their valuation;
- to require reclassifications between fair value through profit or loss (FVTPL) and the amortised cost categories if an entity changes its business model;
- that following the identification of a change in the business model, the financial instruments should be reclassified from the start of the following period (including interim reporting periods);
- that if an instrument is reclassified from the amortised cost to FVTPL, it should be re-measured at the re-classification date and any difference between previous carrying amount and fair value should be recognised in profit or loss;
- that if an instrument was reclassified from FVTPL to amortised cost, the fair value of the instrument on the date of the reclassification would become its new carrying amount;
- to provide at initial recognition an irrevocable election for OCI presentation for any equity investment that is not classified as held for trading and to require dividends on such equity instruments to be presented in profit or loss as long as they represented return on investment but prohibit recycling of other gains and losses;

- to retain all the disclosures proposed in the ED and to disclose separately dividends presented in profit or loss related to the investments classified as fair value through OCI.
- to require a 'look through' approach for holders of contractually linked instruments that create concentrations of credit risk to determine their relative credit risk;
- that with respect to underlying portfolio of investments in contractually linked instruments, additional credit protection (e.g. guarantees) for the underlying instruments would not prohibit amortised cost accounting;
- that the fact that an asset was acquired at a discount that reflected incurred credit losses would not in itself disqualify the instrument from being measured at amortised cost;
- that the final IFRS would be mandatory for annual periods beginning on 1 January 2013 or later with earlier application permitted;
- to require the transition disclosures for all entities adopting the new IFRS;
- to permit initial application of the IFRS at any date between issue of the IFRS and 31 December 2010; thereafter, an entity could determine the date of initial application at the beginning of the reporting period only;
- not to require restatement of comparative periods if the new IFRS is adopted early between 2009-2011;
- with the principle that first-time adopters should not be in a more onerous position in restating comparative periods that entities already applying current IAS 39;
- not to require early adoption of subsequent phases of the IAS 39 replacement project if any previous phase is adopted early; but to require early adoption of any preceding phase if a subsequent phase is adopted early;
- to finalise the proposals in the ED on impracticability of retrospective application and disclosure requirements; and,
- not to provide additional relief for insurance companies at this stage.

The Board approved the IFRS for drafting. Four Board members are likely to dissent. This ED was approved by IASB in December 2009, as IFRS 9. You can keep up to the final standard regarding IFRS 9 via Deloitte's IAS Plus website at www.iasplus.com.

IASB amends IFRS 1 on First-time Adoption for two situations

The IASB has amended IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments address the retrospective application of IFRSs in two particular first-time adoption situations. Firstly, the amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets. Entities electing this exemption will use the carrying amount under its old GAAP as the deemed cost of its oil and gas assets at the date of first-time adoption of IFRSs. Secondly, if a first-time adopter with a leasing contract made the same type of determination of whether an arrangement contained a lease in accordance with previous GAAP as that required by IFRIC 4 Determining whether an Arrangement Contains a Lease, but at a date other than that required by IFRIC 4, the amendments exempt the entity from having to apply IFRIC 4 when it adopts IFRSs. The amendments are effective for annual periods beginning 1 January 2010, with earlier application allowed.

Impairment

The Board decided to provide application guidance on variable rate instruments that requires a "catch-up adjustment" (a mechanism that is used to ensure that the carrying amount of a variable rate instrument unwinds to the remaining expected cash flows by an adjustment to profit or loss, which changes the carrying amount of the instrument).

The Board will require presentation on the face of the statement of comprehensive income of interest revenue based on contractual cash flows; adjustment for allocation of initial expected losses and effect of changes in expectations of expected losses

The Board decided to require the following disclosures:

- reconciliation of the provision for credit losses by class of financial instruments;
- vintage information of financial assets held at amortised cost;
- loss triangle in table format and qualitative information on significant changes in loss estimates;
- disaggregation of the change in expectations of expected losses;
- management's assumptions and methodology in determining expected losses;
- high level sensitivity analysis on key assumptions and effect of using reasonably possible alternatives;
- stress-testing information if it was performed for internal risk management purposes;
- reconciliation of non-performing financial assets held at amortised cost, and
- additional disclosures on transition from incurred loss model to expected loss model.

The Board authorised the staff to proceed with drafting the ED. The Board agreed an 8-month comment period to allow sufficient time for an Expert Advisory Panel to articulate its recommendations.

Hedge Accounting

The Board agreed that hedge accounting for fair value hedges for instruments that are managed on a contractual cash flow basis did not contradict the classification condition in the Classification and Measurement IFRS and there were situations in which such hedge accounting would be appropriate.

The Board disagreed with the extension of the 'lower of' test (currently applied for cash flow hedges) to fair value hedges. The 'lower of' test, ensures that only ineffectiveness due to excess cash flows on the hedging instrument (i.e. derivative) is recognised in profit or loss.

Derecognition

The Board agreed not to include legal isolation test in the model being developed. The Board tentatively agreed with a modified alternative approach (modified by the accounting for repos and retained interests as noted below).

The Board acknowledged that some of these transactions, generally referred as repos, might have the economic substance of a loan and some might have the economic substance of a sale. The Board agreed to measure retained interests representing a proportionate interest in the financial instrument previously recognised as proportionate share of the instrument previously recognised.

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