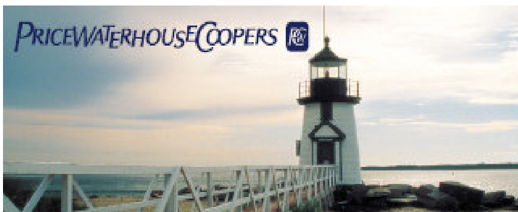


Quarterly Financial Reporting Update

Issue 11
February 2007

Summary of Key Developments (period from October 2006 to January 2007)

Thai Federation of Accounting Professions – Thai FAP

- Thai FAP issued a notification to clarify the amendments of TAS No.44, "Consolidated Financial Statements and Accounting for Investment in Subsidiaries" and TAS No.45 "Accounting for investment in associates" The notification requires investments in subsidiaries and associates to be accounted for under the cost method (previously the equity method was applied) in separate financial statements. The amendment allows for the choice of fair value accounting under IAS 39 (when the equivalent Thai standard or guidance is issued). This change will be effective for accounting periods beginning on or after 1 January 2007. For further information, please refer to the IASB's recently published proposals issued in January 2007 relating to the treatment of accounting changes during the transition period. (Page 3)

- The key development of Thai FAP project in the convergence of Thai Accounting Standards to International Financial Reporting Standards, reporting status as of December 2006. (Page 3)

Department of Business Development – DBD

- The new notification in respect of the rules and procedures for the submission of financial statements No.5 requires companies to submit the Sor.Bor.Chor. 3/1 form, covering information on international investments, when they submit the annual financial statements to the DBD. (Page 4)

- Registered accountants must file a report on their 2006 CPD hours to the DBD within 60 days after 31 December. (Page 4)

International Financial Reporting Standards - IFRS

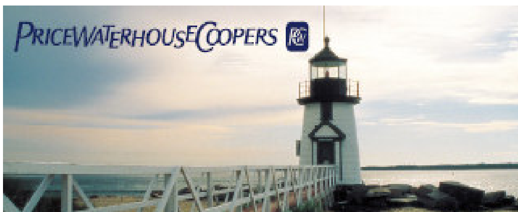
- In November 2006, the International Accounting Standards Board (IASB) published IFRS 8 "Operating Segments" as part of the short-term convergence project with the United States Financial Accounting Standards Board (US FASB). This represents a concrete achievement for the Roadmap, in which a timetable of 2009 was announced for the elimination of major differences between IFRS and US GAAP through a number of short-term convergence projects. (Page 5)

- The International Financial Reporting Interpretation Committee (IFRIC) issued IFRIC 12, which will be effective for accounting periods starting on or after 1 January 2008. IFRIC 12 applies to entities that participate in service concession arrangements. It provides guidance on accounting by operators in public-to-private service concession arrangements. Earlier application is permitted. (Page 5)

- On 2 November 2006, IFRIC published IFRIC 11 "IFRS 2 - Group and Treasury Share Transactions". IFRIC 11 provides guidance on how to establish which entity has granted an award, as it focuses on the obligation to deliver the equity instruments. IFRIC 11 will be effective for annual periods beginning on or after 1 March 2007. Earlier application is permitted. (Page 6)

United States Generally Accepted Accounting Principles – US GAAP

- US FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FAS 109 (FIN 48), establishes a new comprehensive two-step approach to accounting for uncertainty in income taxes. FIN 48 provides specific guidance on recognition, measurement, and other aspects of reporting and disclosing uncertain tax positions. FIN 48 is applied with the financial statements beginning on or after 15 December 2006. (Page 7)



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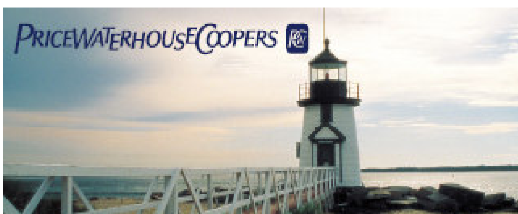
- US FASB issued FAS 157 “Fair Value Measurements” which addresses how companies should measure fair value when they are required to use a fair value measurement for recognition or disclosure purposes under US GAAP. As a result of FAS 157 there is now a common definition of fair value to be used throughout US GAAP. The FASB believes that the new standard will make the measurement of fair value more consistent and comparable, and improve disclosures about those measurements. FIN 48 will apply to entities with with the financial statements beginning after 15 November 2007. (Page 7)

- US FASB issued a new Pension/OPEB standard that is effective in 2006 for public companies under US law. This new standard addresses the accounting implications of FAS 158 “Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FAS 87, 88, 106, and 132(R).” PwC believes that entities which apply any of the delayed recognition provisions of FAS 87 “Employers’ Accounting for Pensions”, and FAS 106 “Employers’ Accounting for Postretirement Benefits Other than Pensions”, for the purposes of accounting for post-employment benefits under FAS 112 “Employers’ Accounting for Post-employment Benefits” will present in their balance sheets the funded status of their post-employment benefits plans. (Page 8)



Thai Federation of Accounting Professions - (Thai FAP)

Thai FAP – Amendments to TAS 44 and TAS 45 relating to preparation of "Separate Financial Statements"

According to the FAP's Notification No.26/2549 dated 11 October 2006 re. the amendment of paragraph 27 of TAS 44 "Consolidated Financial Statements and Accounting for Investment in Subsidiaries" and Notification No.32/2549 dated 3 November 2006 re. the amendment of paragraph 11 of TAS 45 "Accounting for Investment in Associates.", the reason for the change is to bring these standards in line with International Accounting Standards. The amendments are effective for accounting periods beginning on or after 1 January 2007 and early adoption is permitted. The key changes are summarised below.

1. The "Separate Financial Statements" are those presented by a parent or an investor that invests in a subsidiary or an associate or a venturer of a jointly controlled entity, in which the investments are accounted for on the basis of direct equity interest rather than on the basis of the reported results and net assets of the investees.

2. In the separate financial statements, the investments in subsidiaries ,associates are required to be accounted for either at cost or in accordance with the new TAS on "Financial Instruments: Recognition and Measurement" (when it is issued).

3 Adjustments are required to be made retrospectively (if it is practicable) or, alternatively, the carrying value on the date of the change should be used as the cost. Companies adopting the prospective approach are required to offset dividends received against the investment account in order to avoid double counting.

Practical Considerations

Issues have been raised such as what is considered to be impractical, whether the adoption of prospective adjustments would be a preferred method and whether the fair value method is permitted. For clarification, please refer to the IASB's published proposals issued in January 2007 relating to the treatment of accounting changes during the transition period. The IASB proposed that the following:

- Use a deemed cost to measure investment in subsidiaries. The deemed cost is determined by reference to the parent's investment in the net assets of the subsidiaries or the fair value of the parent's investment. For the purpose of applying this method all **accumulated profits are considered to be pre-acquisition when recording dividends.**
- If a parent has not applied a deemed cost as described above, it shall determine pre-acquisition profits, and therefore distribution of pre-acquisition profits shall be credited to investment.

Thai FAP – The key developments in the FAP project for the convergence of Thai Accounting Standards to International Financial Reporting Standards

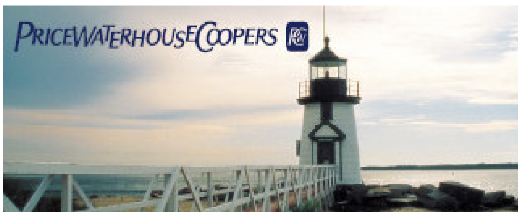
A comparison between TAS and IFRS incorporating the progress in the convergence of TAS to IFRS is provided below:

Full compliance:-

- TAS 25 "Cash Flow Statements"
- TAS 33 "Borrowing Costs"
- TAS 37 "Revenue Recognition"
- TAS 49 "Construction Contracts"
- TAS 52 "Events After the Balance Sheet Date"
- TAS 53 " Provisions, Contingent Liabilities and Contingent Assets"

Published draft:-

- TAS 29 "Accounting for Leases"
- TAS 31 "Inventories"
- TAS 32 "Property, Plant and Equipment"
- TAS 35 "Presentation of Financial Statements"
- TAS 36 "Impairment of Assets"
- TAS 44 "Consolidated and Separated Financial Statements" (when TAS 44 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" is revised)
- TAS 45 "Accounting for Investments in Associates"
- TAS 46 "Financial Reporting of Interests in Joint Ventures"
- TAS 47 "Related Party Disclosures"
- TAS 51 "Intangible Assets"
- TAS 55 "Accounting for Government Grants and Disclosure of Government Assistance"
- TAS 57 "Accounting for Agriculture"
- Investment Property



Development of the following TAS is in progress:

- TAS 30 "The Effects of Changes in Foreign Exchange Rates"
- TAS 38 "Earnings Per Share"
- TAS 39 "Net Profit or Loss for the Period, Fundamental Errors and Accounting Changes"
- TAS 41 "Interim Financial Statements"
- TAS 48 "Financial Instruments: Disclosures and Presentation"
- TAS 50 "Segment Reporting" (when TAS 24 "Reporting Financial Information by Segment" is superseded)
- TAS 56 "Accounting for Income Taxes"
- Financial Instruments: Recognition and Measurement.
- Share-based Payment
- Business Combinations (when TAS 43 "Business Combinations" is changed)
- Insurance Contracts
- Non-current Assets Held for Sale and Discontinued Operations (when TAS 54 "Discontinuing Operations" and some parts of TAS 32 "Property, Plant and Equipment" are revised)
- Exploration for and Evaluation of Mineral Assets
- Employee Benefits
- Accounting and Reporting by Retirement Benefit Plans

Link:http://www.fap.or.th/mission/detail.php?id=463&type=010&menu_id=3.3

Department of Business Development – DBD

DBD – Notification in respect of the rules and procedures for the submission of financial statements No.5 – change in the rules for the submission of statutory accounts.

Department of Business Development issued the notification in respect of the rules and procedures for the submission of financial statements No.5 dated 27 September 2006, which became effective on 1 January 2007.

The following entities must submit additional information (Form Sor.BorChor. 3/1) relating to their international investment when submitting their annual financial statements.

1. A limited company or public company limited established under Thai law in which foreign investors hold shares equivalent to at least 1% of the shares with voting rights.
2. A registered partnership established under Thai law or a joint venture under the Thai Revenue Code which has a foreign joint investor.
3. A foreign company established under a foreign law and carrying on business in Thailand.
4. A Thai registered partnership, Thai limited company, Thai public company limited or a joint venture under Thai Revenue Code which has the business of foreign investment by jointly invest with the foreigner or held the share at least 1% of the capital or value of share with voting right.

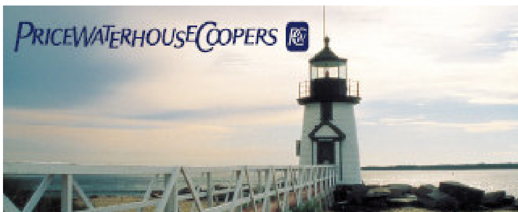
The last day for submission of the statutory accounts for the year ended 31 December 2006 is 1 June 2007 or within 1 month after the date of the Annual General Meeting of the company.

Link:http://www.dbd.go.th/thai/law/prakad6_dbd1.pdf

DBD – Reminder for registered accountants to report CPD hours.

PwC would like to remind registered accountants that they must collect at least 27 continuing professional development ('CPD') hours in every three-year cycle. Registered accountants who attended the "Financial Reporting Update 2006" held by PricewaterhouseCoopers ABAS Ltd. on 28 November 2006 can record six and a half CPD hours in the accounting section. The course ID is 4006949001. Registered accountants who attended the seminar and need a certificate or who have not yet received a certificate, please contact our M&C representative or your normal PwC contact person. The last day for reporting the CPD hours for seminars attended during 2006 is 1 March 2007.

Link: http://www.dbd.go.th/accdbd/.



International Financial Reporting Standards – IFRS

IFRS – IFRS 8 "Operating Segments" was issued as a part of the short-term IASB convergence project with the FASB to eliminate major differences between IFRS and US GAAP.

IASB compared IAS 14 "Segment Reporting" and FAS 131 "Disclosures about Segments of an Enterprise and Related Information." IFRS 8 replaces IAS 14, "Segment Reporting", and aligns the requirements of the two standards. It applies to the annual financial statements for periods beginning on or after 1 January 2009. Earlier application is permitted.

IFRS 8 requires the 'management approach' to reporting on the financial performance of operating segments. The information to be reported is what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. Switching to a reliance on management's internal information should also reduce costs for companies producing one set of information for disclosure and a second set for decision-making.

Retrospective application is required for service concession arrangements within the scope of the interpretation, except in the rare circumstance when There is a new concept, the chief operating decision-maker (CODM). This is the function within an entity that allocates resources and monitors performance. The information reviewed by the CODM is the key driver of external segment reporting and is used to determine both the segments and the measure of segment performance reported in the financial statements. Management should also be aware that IFRS 8 may have implications beyond segment reporting.

IFRS 8 is not mandatory until 2009, but the challenge of adopting a new model for segment reporting should not be underestimated and management should begin to think about implementation sooner rather than later. Management might usefully consider:

1. Early adoption.
2. Identification of the CODM.
3. Required disclosures.
4. External perceptions.
5. Quality of management information.
6. Systems and controls.
7. Impact of disclosing sensitive information.
8. Timetable.

IFRS - IFRIC published IFRIC 12 in respect of service concession arrangements.

IFRIC 12 applies to arrangements where the grantor controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price. The grantor also controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

IFRIC has clarified that arrangements in the scope of IFRIC 12 are outside of the scope of IFRIC 4. An arrangement may include the following characteristics:

1. The contract is granted via a government agency that is responsible for the national network;
2. The operator makes day-to-day decisions such as lane closure, staffing needs, etc.;
3. There is a target operating capacity in on- and off-peak periods; and
4. The reverted condition to the government agency after a specific term.

Two different accounting models IFRIC 12 specifies the accounting treatment an operator applies to recognise the rights received under a service concession arrangement. Two models exist under the interpretation, as follows:

1. Financial asset – an operator with a contractual and unconditional right to receive specified or determinable amounts of cash (or other financial asset) from the grantor recognises a financial asset; and
2. Intangible asset – an operator with a right to charge the users of the public service recognises an intangible asset. There is no contractual right to receive cash when payments are contingent on usage.

The appropriate accounting model is not always obvious. Arrangements should be analysed in detail and may give rise to both a financial asset and an intangible asset.

Retrospective application is required for service concession arrangements within the scope of the interpretation, except in the rare circumstance when retrospective application is impracticable. The comparative period for most companies will cover all or a portion of 2007.

IFRS - IFRIC published IFRIC 11 "Group and Treasury Share Transactions." The following summary describes how schemes will be affected.

IFRIC 11 addresses equity-settled awards and group schemes, as follows:

1. Equity-settled awards
   - Company issues the award, whether or not it (has to) buy: an arrangement requiring the delivery of own equity instruments is accounted for as an equity-settled arrangement regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligation to its employees.
   - Shareholder settles the award: arrangements are accounted for as an equity-settled share-based payment, whether the employee's rights to the entity's equity instruments are granted or settled by the entity or by the entity's shareholders.
2. Group schemes. The classification for share-based payment awards, which will be settled in parent company shares, granted to employees of a subsidiary:
   - if the parent grants the award, it is treated as equity settled in both the consolidated group accounts and the separate financial statements of the employing subsidiary; and
   - if the subsidiary grants the award, it is treated as cash settled in the separate financial statements of the employing subsidiary, even though it would be equity settled in the consolidated group accounts.

The interpretation provides guidance on how to establish which entity has granted an award, as it focuses on the obligation to deliver the equity instruments. The presumption is that the entity that the entity that has taken on the obligation to deliver shares in settlement, either on vesting for a share award or on exercise for an option, is the grantor.

IFRIC 11 also confirms that where the vesting of an award is based on service within a group - rather than with a specific entity within the group - an expense for an equity-settled arrangement is recognised in each group entity that the employee works for, based on the fair value of the equity instruments measured at grant date from a group perspective.

Additional considerations are as follows:

1. Funding arrangements between parent and subsidiary: If the parent grants rights over its equity instruments to the employees of its subsidiary (accounted for as an equity-settled share-based payment), the debit (IFRS 2 expense) is recognised in the subsidiary's income statement with a credit to equity (as a capital contribution) over the vesting period of the share-based payment arrangement. IFRIC 11 does not address the accounting within the parent entity for the capital contribution.
2. Consolidation adjustments: More complex accounting arises if a group has awards granted by a subsidiary that are settled in parent company shares. The expense in the subsidiary separate financial statements is based on cash-settled accounting - i.e., marked to fair value. The separate financial statements of the parent entity reflect the terms of any agreement between the subsidiary and the parent regarding provision of the shares.

United States Generally Accepted Accounting Principles – US GAAP

US GAAP - Application of FIN 48

Entities with financial statements beginning on or after 15 December 2006 are required to adopt Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109 (FIN 48). Accordingly, calendar year-end companies will adopt FIN 48 in the first quarter of 2007.

The key points in the Interpretation are:

- A tax benefit may be reflected in the financial statements only if it is "more likely than not" that the company will be able to sustain the tax return position, based on its technical merits.
- A tax benefit should be measured as the largest amount of benefit that is cumulatively greater than 50-percent likely to be realized.

FIN 48 requires companies to ascertain, evaluate, and conclude on discrete tax risks. It also requires a relatively mechanical calculation of interest and penalties on these conclusions, as well as a new disclosure regime. Companies may not always have the ability to fully ascertain the implications of their tax position due to many factors including lack of knowledge, time constraints, resource constraints, quality of past compliance filings, and insufficient mechanisms to gather data. Many issues such as documentation, transfer pricing, arbitrary enforcement and inconsistent interpretation by regulators, etc. are generic to many jurisdictions, with each jurisdiction having its own particular twist.

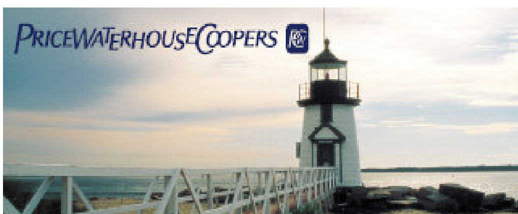
To apply effectively the FASB's new and detailed guidance, companies will need to identify all significant income tax exposures existing as of the adoption date, including all "Uncertain Tax Positions" (UTP's) in all tax years still subject to assessment or challenge under relevant tax statutes.

US GAAP - An overview of key principles of FAS 157

Financial statement preparers and auditors need to understand FAS 157's key concepts, including the "exit price," the fair value hierarchy, and the principal (or most advantageous) market. Preparers and auditors also need to more fully comprehend valuation theory in order to achieve FAS 157's objectives.

Current practice will change as a result of FAS 157's (1) definition of fair value, (2) prescribed methods for measuring fair value, and (3) expanded disclosure requirements. Specific areas of current practice that FAS 157 will change include the following:

1. Market-Based Measures vs. Entity-Specific Measures: FAS 157 clarifies that the term fair value is intended to mean a market-based measure, not an entity-specific measure. In measuring fair value for a financial statement item, FAS 157 gives the highest priority to quoted prices in active markets. However, FAS 157 also permits the use of unobservable inputs for situations in which there is little, if any, market activity for the asset or liability being measured.
2. The Effect of Changes in Credit Risk on a Fair Value Measure: FAS 157 clarifies that in measuring the fair value of a liability, a company should take into account the effect of its own credit standing. This requirement could lead to counter-intuitive results.
3. Investment Blocks: The AICPA permitted companies to adjust the fair value of large holdings of securities (blocks) to reflect blockage factors. A blockage factor is a discount applied to the security price to reflect the lack of trading volume in the market for the security to absorb the sale of a large block without impacting the security's price. FAS 157 does not allow this; the fair value of quoted securities will be equal to the price multiplied by the quantity, without any adjustment to reflect a blockage factor.



4. Restricted Securities: FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (FAS 115), applies to equity securities for which sale is restricted for a period less than one year. For such restricted securities, FAS 115 did not permit companies to reduce the quoted price of an identical but unrestricted security to reflect the impact of the restriction. (Equity securities for which sale is restricted for a period of more than one year are outside the scope of FAS 115).
5. Certain Guidance in EITF Issue 02-3 Will Be Superseded: The Emerging Issues Task Force (EITF) specifies in footnote 3 of EITF Issue 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities, that a dealer cannot recognize Day 1 profit if a derivative contract's fair value is not based on observable market data. Day 1 dealer profit is the unrealized gain or loss resulting from the difference between the transaction price of a derivative instrument and the fair value of the instrument at initial recognition.
6. Expanded Disclosure Requirements: FAS 157 requires disclosures intended to provide information about (1) the extent to which companies measure assets and liabilities at fair value, (2) the methods and assumptions used to measure fair value, and (3) the effect of fair value measures on earnings. To provide companies with adequate lead time, the FASB decided that, for calendar-year-end companies, FAS 157 will be effective on January 1, 2008.

US GAAP - Applying FAS 158 and 132(revised) to post-employment benefit arrangements covered by FAS 112

To increase the transparency and understandability of the amount of a company's benefit obligations and assets, FAS 158 eliminates FAS 87 and 106's delayed recognition models for balance sheet recognition purposes and requires that the full amount of a company's pension or other postretirement benefit plan's funded status (the difference between the benefit obligation and the assets set aside to fund that obligation) be reported in the balance sheet. Most companies utilize the delayed recognition provisions of FAS 87 and 106 in accounting for pension and other post-retirement benefits. When they adopt FAS 158, those companies will report as part of the net benefit liability on their balance sheets amounts that have not yet been recognized as a component of benefit expense (i.e., unrecognized prior service costs or credits, net (actuarial) gain or loss, and transition obligation or asset) with a corresponding adjustment to accumulate other comprehensive income (AOCI).

Although FAS 158 does not amend FAS 112, if the concepts in FAS 87 and 106 serve as the basis for delaying the recognition of any FAS 112 costs, the elimination of FAS 87 and 106's delayed recognition model for balance sheet recognition purposes extends to post-employment benefits covered by FAS 112.

Quarterly Financial Reporting Update is an accounting alert that is produced by the Professional Standards Group of PricewaterhouseCoopers (PwC) -Thailand to apprise PwC clients and other friends of emerging business and technical issues. Throughout this **Quarterly Financial Reporting Update**, there are references to several websites useful for further research. We also recommend the CFO direct Network's website (http://www.cfodirect.com) and the PwC global corporate reporting website (http://www.pwc.com/ifrs) for further consultation and information on publications and useful tools, such as 'Comperio IFRS' and 'Applying IFRS' - real life solutions. (http://www.pwc.com/applyingifrs) Information on PwC Thailand can be found at (http://www.pwc.com/th). PricewaterhouseCoopers (www.pwc.com) is the world's largest professional services organization. Drawing on the knowledge and skills of more than 125,000 people in 142 countries, we build relationships by providing services based on quality and integrity
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