



## Quarterly Financial Reporting Update

**Issue 7**  
**June 2005**

### *Summary of Key Developments*

#### **Thai Securities and Exchange Commission – Thai SEC**

- In January 2005, the SEC issued notification No. Kor.Jor. 5/2548 for the purpose of setting good corporate governance standards with respect to the appointment of public listed company executives and the publication of related information. (Page 2)

#### **International Financial Reporting Standards - IFRS (formerly International Accounting Standards - IAS)**

- In December 2004, the International Financial Reporting Interpretations Committee (IFRIC) released IFRIC 5, 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds', incorporating an amendment to IAS 39, 'Financial Instruments: Recognition and Measurement'. (Page 3)
- The IASB has issued an Exposure Draft of Proposed Amendments to IFRS 6, 'Exploration for and Evaluation of Mineral Resources', and IFRS 1, 'First-time Adoption of IFRS', in April 2005 with comments due in June 2005. (Page 3)

#### **US Generally Accepted Accounting Principles – US GAAP**

- The FASB issued FAS 152, 'Accounting for Real Estate Time-Sharing Transactions', in December 2004, as an amendment to FAS 66 and 67. (Page 4)
- The FASB issued FAS 153, 'Exchanges of Nonmonetary Assets', which represents an amendment of APB 29, 'Accounting for Nonmonetary Transactions' in December 2004. (Page 4)
- The FASB issued FAS 154, 'Accounting Changes and Error Corrections' which represents a replacement of APB Opinion No. 20 and FASB Statement No. 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. (Page 4)

#### **US Securities and Exchange Commission – US SEC**

- In March 2005, the US Securities and Exchange Commission (US SEC) announced that non-accelerated filers and foreign private issuers are given more time to comply with the requirements of Sections 302 and 404 of the Sarbanes-Oxley Act of 2002. (Page 5)
- The US SEC staff issued Staff Accounting Bulletin No. 107 (SAB 107) in March 2005, which includes guidance on FASB Statement No. 123 (revised 2004), 'Share-Based Payment', (FAS 123(R)). The Bulletin was issued to assist preparers by simplifying some of the implementation challenges of FAS 123(R) while enhancing the information that investors receive. (Page 6)
- In April 2005, the Securities and Exchange Commission (SEC) approved the delay of the effective date of FASB Statement No. 123 (revised 2004), 'Share-Based Payment' (FAS 123(R)) for public companies. (Page 6)



## Quarterly Financial Reporting Update

### ***Thai Securities and Exchange Commission - (Thai SEC)***

#### **SEC regulations on the appointment of public listed company executives**

On 17 January 2005, the Thai SEC issued notification No. Kor.Jor. 5/2548 for the purpose of setting good corporate governance standards with respect to the appointment of public listed company executives and the publication of related information. The SEC notification confirms the existing obligation of public companies to submit information on their executives to the SEC for approval and publication. Moreover, the notification specifies 10 circumstances which, depending on their severity, may prevent a person from being accepted as a qualified executive under the SEC regulations. In case one or more of such circumstances are present with respect to a specific candidate, a special approval is required from the SEC. Circumstances that may result in rejection of a candidate are, for example, past incidents of business related dishonesty or unfair practice towards investors, third parties or the company. The reasons specified in the notification are valid to justify a rejection for not longer than fifteen years after the occurrence of the specific event. In accordance with the notification and for the purpose of ensuring candidates' appropriateness, the SEC, for example, validates information from the government of Thailand but also information gathered from abroad. In order to provide the public with appropriate information about the executives of public companies listed on the Stock Exchange of Thailand, certain information has to be filed with the SEC in a specific executive database from 1 June onwards. The notification is effective from 1 March 2005.

*Link: <http://www.sec.or.th>*



## **International Financial Reporting Standards – IFRS**

*New standards from the International Accounting Standards Board will be known as International Financial Reporting Standards (IFRS) and not International Accounting Standards (IAS).*

### **IFRIC Interpretation 5 - Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**

On 16 December 2004, the International Financial Reporting Interpretations Committee (IFRIC) released IFRIC 5, 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'. The Interpretation applies to accounting in the financial statements of a contributor for interests arising from decommissioning funds in which the assets are administered separately and a contributor's right to access the assets is restricted. Separate administration of the assets could either be ensured through segregation of the assets within another entity or the assets being held in a separate legal entity. A residual interest in a fund that extends beyond a right to reimbursement, such as a contractual right to distributions once all the decommissioning has been completed or on winding up the fund, is not within the scope of IFRIC 5. The Interpretation clarifies that parties contributing to funds having the above features, should recognise their obligation to pay decommissioning costs as a liability and recognise their interest in the fund separately. This applies unless the contributor is not liable to pay decommissioning costs in case the fund fails to pay. By reference to the respective standards the contributor should determine whether it has control, joint control or significant influence over the fund and account for its interest in the fund accordingly. In absence of control, joint control or significant influence over the fund, the right to receive reimbursement from the fund should be recognised by the contributor as a reimbursement in accordance with IAS 37, being measured at the lower of:

- (a) the amount of the decommissioning obligation recognised; and
- (b) the contributor's share of the fair value of the net assets of the fund attributable to contributors.

Any changes in the carrying value of the right to receive reimbursement other than contributions to and payments from the fund should be recognised in profit

or loss immediately. Potential additional contributions that a contributor may have to make, for example, in the event of the bankruptcy of another contributor or if the value of the investment assets held by the fund decreases to an extent that they are insufficient to fulfil the fund's reimbursement obligations, commonly constitute a contingent liability in accordance with IAS 37. A liability should be recognised though if it is probable that such additional contributions will be made. IFRIC 5 should be applied for annual periods beginning on or after 1 January 2006 with earlier application encouraged and to be disclosed. Initial application of the Interpretation should be accounted for in accordance with IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors'.

### **Exposure Draft - Amendments to IFRS 6, 'Exploration for and Evaluation of Mineral Resources' and IFRS 1, 'First-Time Adoption of International Financial Reporting Standards'**

The IASB issued an Exposure Draft of Proposed Amendments to IFRS 6 'Exploration for and Evaluation of Mineral Resources' and IFRS 1 'First-time Adoption of IFRS' in April 2005. At present, IFRS 1 includes an exemption from the requirement to provide comparative disclosures for IFRS 6 to entities that adopt IFRSs for the first time before 1 January 2006 and apply IFRS 6 Exploration for and Evaluation of Mineral Resources before that date. Based on the intentions of the International Accounting Standards Board to provide a wider exemption - the Exposure Draft now extends the exemption to the recognition and measurement requirements of IFRS 6 for the comparative period. The comment period ended on June 3 and the draft amendments are proposed to be applied for annual periods beginning on or after 1 January 2006.

Link: <http://www.iasb.org>



## ***US Generally Accepted Accounting Principles – US GAAP***

### **FAS 152, Accounting for Real Estate Time-Sharing Transactions - amendment of FASB Statements No. 66 and 67**

In association with the AICPA's issuance of SOP 04-2, 'Accounting for Real Estate Time-Sharing Transactions', the FASB issued FAS 152, Accounting for Real Estate Time-Sharing Transactions representing an amendment to FAS 66, 'Accounting for Sales of Real Estate', and 67, 'Accounting for Costs and Initial Rental Operations of Real Estate Projects'. The real estate time-sharing industry has experienced significant growth since its inception, both in terms of sales volumes and in the variety of time-sharing structures used by sellers. The changes in the methods used by the industry to offer its products resulted in divergent accounting practices including practices associated with revenue recognition, recording of credit losses, and the treatment of selling costs. In response to these developments the AICPA developed SOP 04-2, which provides additional guidance on the accounting by a seller for all real estate time-sharing transactions. Transactions covered include

- a. Fee simple transactions in which nonreversionary title and ownership of the real estate pass to the buyer or an SPE
- b. transactions in which title and ownership of all or a portion of the real estate remain with the seller
- c. transactions in which title and ownership of all or a portion of the real estate pass to the buyer and subsequently revert to the seller or transfer to a third party, and
- d. transactions by a time-share reseller

The FASB has cleared SOP 04-2 and accommodated it in FAS 152. Both, FAS 152 and SOP 04-2 are effective for fiscal years beginning after June 15, 2005 with earlier application encouraged.

### **FAS 153 - Exchanges of Nonmonetary Assets - An amendment of APB Opinion No. 29**

In December 2004, the FASB issued FAS 153, 'Exchanges of Nonmonetary Assets' which represents an amendment of APB 29. The guidance in APB Opinion No. 29, 'Accounting for Nonmonetary Transactions', is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in the Opinion, however, included certain exceptions to

that principle and required that some nonmonetary exchanges, although commercially substantive, should be recorded on a carryover basis. FAS 153 amends APB 29 to eliminate those exceptions and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is the result of a broader effort by the FASB to improve the comparability of cross-border financial reporting by working with the International Accounting Standards Board (IASB) toward development of a single set of high-quality accounting standards. The accounting for nonmonetary exchanges was identified as an area in which the U.S. standard could be improved by eliminating certain differences between the measurement guidance in Opinion 29 and that in IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets. FAS 153 is effective prospectively for nonmonetary asset exchanges occurring in fiscal periods beginning after 15 June 2005.

### **FAS 154 - Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3**

In May 2005, the FASB issued FAS 154, which replaces APB Opinion No. 20, 'Accounting Changes', and FASB Statement No. 3, 'Reporting Accounting Changes in Interim Financial Statements', and changes the requirements for the accounting for and reporting of a change in accounting principle. FAS 154 applies to all voluntary changes in accounting principle and to changes required by an accounting pronouncement in absence of specific transition provisions. Opinion 20 required that most voluntary changes in accounting principle be recognized by including the cumulative effect of changing to the new accounting principle in net income of the period of the change. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change in which case the new



### **US Generally Accepted Accounting Principles – US GAAP**

accounting principle is to be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable. A corresponding adjustment has to be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, FAS 154 requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable. FAS 154, similar to Opinion 20 requires justification for a change in accounting principle on the basis of preferability. The guidance for reporting the correction of an error in previously issued financial statements and a change in

accounting estimate is also carried forward without change from Opinion 20. FAS 154 will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date FAS 154 is issued.

Link: <http://www.fasb.gov>

### **US Securities and Exchange Commission – US SEC**

#### **Sarbanes-Oxley Sections 302 and 404 Delayed for Non-Accelerated Filers and Foreign Private Issuers**

In March 2005, the US Securities and Exchange Commission (US SEC) announced that non-accelerated filers (companies with a public float below \$75 million and who have not been subject to the SEC's periodic reporting requirement for at least 12 months) and foreign private issuers (companies that file their annual reports on Form 20-F or 40-F) are given more time to comply with the requirements of Sections 302 and 404 of the Sarbanes-Oxley Act of 2002. Under this latest extension, non-accelerated filers and foreign private issuers must begin to comply with the internal control over financial reporting requirements established by Sections 302 and 404 for their first fiscal year ending on or after July 15, 2006. This is a one-

year extension from a previously established compliance date of July 15, 2005. This temporary relief is intended to help eligible companies balance their efforts to comply with Section 404 with other regulatory and reporting challenges.

Link: <http://www.sec.gov>



## **US Securities and Exchange Commission – US SEC**

### **SEC Staff Accounting Bulletin 107 on FAS 123(R)**

In March 2005, the SEC staff issued Staff Accounting Bulletin No. 107 (SAB 107) which includes guidance on FASB Statement No. 123 (revised 2004), Share-Based Payment, (FAS 123(R)). The Bulletin was issued to assist preparers by simplifying some of the implementation challenges of FAS 123(R) while enhancing the information that investors receive. SAB 107 reinforces the flexibility allowed by FAS 123(R) to choose an option-pricing model that meets the standard's fair value measurement objective. SAB 107 also provides guidance on when it would be appropriate to rely exclusively on either historical or implied volatility in estimating expected volatility. Key topics covered by the Bulletin further include issues such as accounting for income tax effects of FAS 123(R), the classification of compensation expense, the capitalization of compensation cost and modifications of options prior to adoption of FAS 123(R). SAB 107 is effective March 29, 2005.

*Link: <http://www.sec.gov/interps/account/sab107.pdf>*

### **Effective Date of FAS 123(R) - Delayed**

In April 2005, the Securities and Exchange Commission (SEC) approved the delay of the effective date of FASB Statement No. 123 (revised 2004), 'Share-Based Payment' (FAS 123(R)) for public companies, giving a number of those companies more time to develop their implementation strategies. For most public companies the delay will eliminate the comparability issues that would have arisen from adopting FAS 123(R) in the middle of their fiscal years as originally called for by FAS 123(R). Under the SEC's rule, FAS 123(R) is now effective for public companies for annual, rather than interim, periods that begin after June 15, 2005. The effect for most public companies (e.g., those that have fiscal years beginning on January 1) is a six-month deferral of the new standard. For public companies with non-calendar fiscal years, the effect of the deferral will vary depending on a company's fiscal year-end. The SEC's rule does not change the effective date of FAS 123(R) for small business issuers. Public companies that already adopted the measurement and recognition provisions of FAS 123(R) or FASB Statement No. 123, 'Accounting for Stock-Based Compensation' should continue to apply those standards. Until FAS 123(R)'s amended effective date, the provisions of FAS 123 remain in effect, which permit the continued use of the intrinsic value method of APB Opinion No. 25, 'Accounting for Stock Issued to Employees'.

*Link: <http://www.sec.gov>*



## Quarterly Financial Reporting Update

**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>).

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