



**VISION  
2020**

[www.pwc.com/la](http://www.pwc.com/la)

# **IFRS: *Banking***

What's in it for me?



**20 years** 1996-2016  
**PwC Lao**  
*Building relationships, creating value*

**14 October 2016**

@Bank of Lao PDR



Multi-nodal organisation



Technology-enabled  
innovators



Leader in building and  
sustaining trust-based  
institutions



Client service from  
strategy through execution



VISION  
2020

[www.pwc.com/la](http://www.pwc.com/la)

# ***IFRS: Banking***

What's in it for me?



*20 years* 1996-2016 PwC Lao  
*Building relationships, creating value*

***14 October 2016***

@Bank of Lao PDR

**pwc**



Multi-nodal organisation



Technology-enabled  
innovators



Leader in building and  
sustaining trust-based  
institutions



Client service from  
strategy through execution

# Course outline

	<b>Duration (mins)</b>	<b>Time</b>
<b><i>Introduction</i></b>	10	08:30 – 08:40
<b><i>Survey says! (Brief case exercise)</i></b>	5	08:40 – 08:45
<b><i>Common challenges on IFRS reporting</i></b>		
<i>Summary of key differences commonly affecting banks in Lao PDR</i>	10	08:45 – 08:55
<i>Functional currency (IAS 21)</i>	35	08:55 – 09:30
<i>Amortised cost using effective interest method (IAS 39)</i>	30	09:30 – 10:00
<b><i>Break time!</i></b>	15	10:00 – 10:15

# Course outline

	<b>Duration (mins)</b>	<b>Time</b>
<i>Break time!</i>	15	10:00 – 10:15
<i>Impairment of loans and advances to customers (IAS 39)</i>	30	10:15 – 10:45
<i>Interest income recognition on impaired loans (IAS 39)</i>	10	10:45 – 10:55
<i>Financial risk management policies (IFRS 7)</i>	15	10:55 – 11:10
<i>Taxes (IAS 12)</i>	10	11:10 – 11:20
<b><i>Impact of improperly prepared IFRS accounts</i></b>		
<i>Modification of audit opinion</i>	5	11:20 – 11:25
<i>Questionable quality and transparency of the accounts</i>	5	11:25 – 11:30
<b><i>Key learning points</i></b>	10	11:30 – 11:40
<b><i>Key contact people</i></b>	5	11:40 – 11:45
<b><i>Question time</i></b>	5	11:45 – 11:50

# ***Introduction***

## **Objectives**

***To understand the key differences between IFRS reporting and BoL reporting***

***To identify the key concerns in preparation for financial statements based on IFRS***

# ***Introduction***

## **What are IFRS?**

### **International Financial Reporting Standards (IFRS)**

- IFRS is a single set of accounting standards intended to be capable of being applied on a globally consistent basis, which are developed and maintained by the International Accounting Standards Board (IASB)

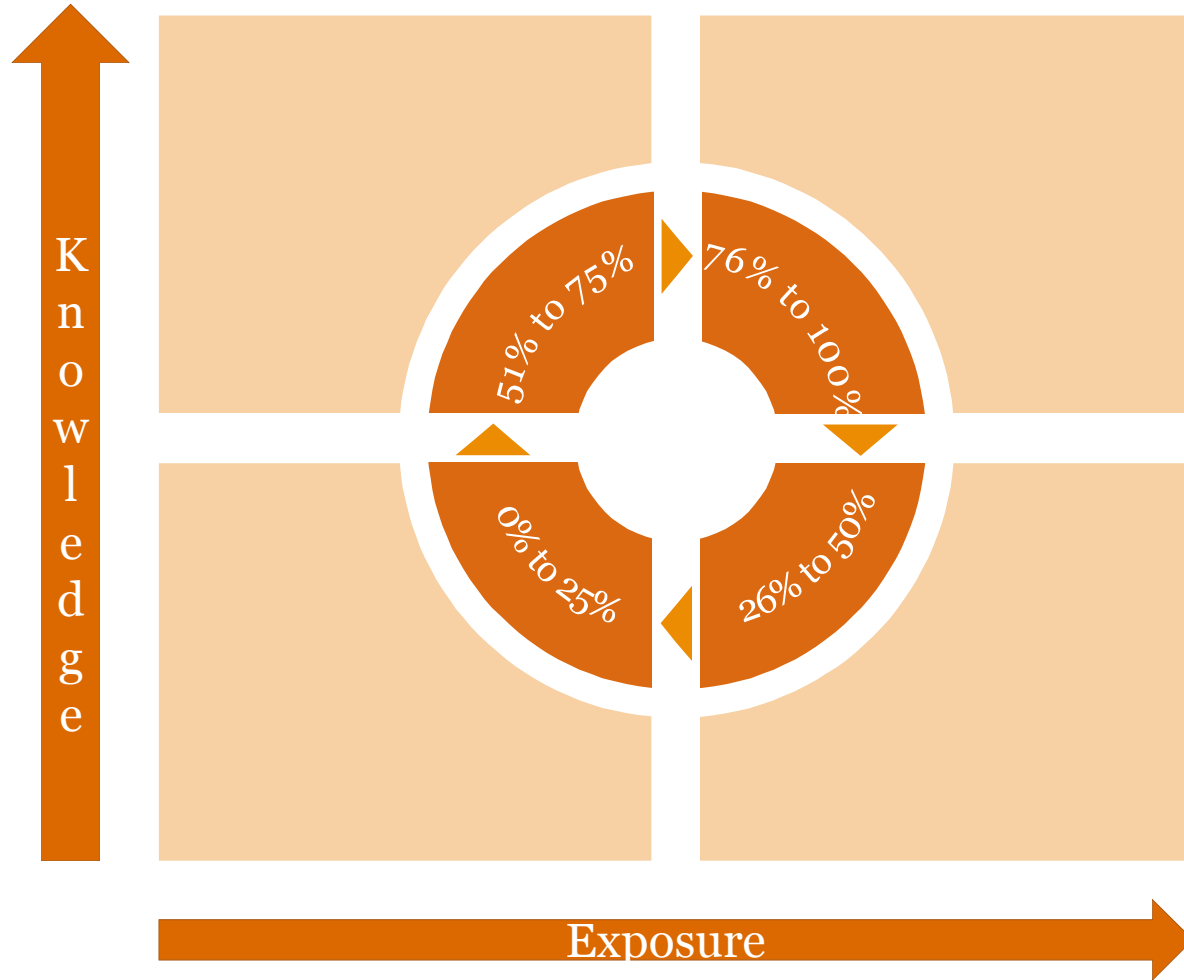


We are following  
the rules and  
regulations of the  
Bank of Lao PDR.

Source: <http://www.ifrs.org/about-us/pages/what-are-ifrs.aspx>

# Survey says!

## Brief case exercise



# Common challenges on IFRS reporting

Summary of key differences commonly affecting banks in Laos

Key challenge	IFRS	BoL	Account
<b>Determination of the appropriate functional currency</b>	<i>IAS 21 – The Effects of Changes in Foreign Exchange Rates</i>	Reporting currency is only identified (LAK)	Functional currency
<b>Application of the effective interest method</b>	<i>IAS 39 – Financial instruments: Recognition and Measurement (to be replaced by IFRS 9)</i>	No specific regulation.	Loans and advances to customers, fee and commission income, interest income
<b>Estimating the provision based on actual impairment indicators.</b>	<i>IAS 39 – Financial instruments: Recognition and Measurement (to be replaced by IFRS 9)</i>	BoL Notification No. 7 and the Supervision of the BoL no. 541	Impairment of loans and advances to customers



# ***Common challenges on IFRS reporting***

## **Summary of key differences commonly affecting banks in Laos**

<b>Key challenge</b>	<b>IFRS</b>	<b>BoL</b>	<b>Account</b>
<b>Recognising and measuring deferred taxes resulting from the temporary differences.</b>	<i>IAS 12 – Income Taxes</i>	Lao Tax law No. 70/NA	Income tax and deferred tax asset/liability
<b>Presenting and disclosing the required information for banks.</b>	<i>IFRS 7 – Financial Instruments: Disclosures</i>	No specific regulation pertaining to financial risk management policies.	Presentation and disclosure
<b>Identifying the of type of retirement plan and reasonably estimate the assumptions to be used.</b>	<i>IAS 19 – Employee Benefits</i>	Only application of the SSO Law.	Retirement benefit expense and obligation, short-term and long-term benefit

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **Functional currency**

The currency of the primary economic environment in which the entity operates

### **Presentation currency definition**

The currency in which financial statements are presented.

### **Foreign currency definition**

A currency other than the entity's functional currency

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **True or false**

- 1) Entity must measure its results and financial position at presentation currency.

**FALSE**

- 2) Once a functional currency has been determined, it can never change.

**TRUE**

- 3) Foreign currency transactions should initially be recognised at the functional currency using the spot rate of the transaction date.

**TRUE**

# ***Common challenges on IFRS reporting***

## Functional currency (IAS 21)

### **Determining the functional currency**

Currency of the primary economic environment in which the entity **normally generates and expends cash.**

- **Not a free choice.**
- Location of the entity is **not enough** to determine its functional currency.
- IAS 21 focuses more on **the currency of the underlying economy that determine the pricing of the transactions** rather than the currency in which the transactions are denominated and settled.

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **Determining the functional currency**

#### **Primary indicators**

**Closely linked to the primary economic environment in which the entity operates and are given more weight**

- Sales and cash inflows
- Expenses and cash outflows

#### **Secondary indicators**

**Provide supporting evidence to determine...**

- financing activities
- retention of operating income

#### **Additional factors for foreign operations**

- Degree of autonomy
- Frequency of transactions with reporting entity
- Cash flow impact on reporting entity
- Financing

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **Primary indicators**

#### ***Sales and cash inflows***



- The currency that *mainly influences* sales prices for its goods and services. This will often be the currency in which sales prices for goods and services are denominated and settled.
- The currency of the country whose competitive forces and regulations *mainly determine* the sales prices of its goods and services.

#### ***Expenses and cash outflows***



The currency that *mainly influences* labour, material and other costs of providing goods and services. This is often the currency in which such costs are denominated and settled.

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **Secondary indicators**

#### ***Financing activities***



The currency in which funds from financing activities (for example, issuing debt and equity instruments) are generated.

#### ***Retention of operating income***



- The currency in which receipts from operating activities are usually retained.
- This is the currency in which the entity maintains its working capital balance.

# ***Common challenges on IFRS reporting***

## **Functional currency (IAS 21)**

### **Example 1**

ZZ Corp. is based in Malaysia. Over 90% of its revenue is in Hong Kong dollars derived from contracts with customers in Hongkong.

ZZ Corp.'s parent, which it operates from independently, is located in Switzerland. The group financial statements are presented in Swiss Francs.

**What is the most likely functional currency of ZZ Corp?**

- a) Company ZZ can choose any of the above currencies as its functional currency.
- b) Swiss Franc.
- c) Malaysian Ringgit
- d) Hong Kong Dollar.



Hong Kong  
Dollar



# ***Common challenges on IFRS reporting***

## Functional currency (IAS 21)

When the indicators are **mixed** and the functional currency is **not obvious**

Management uses its **judgment** to determine the functional currency that **most faithfully represents** the economic effects of the underlying transactions, events and conditions.

# ***Common challenges on IFRS reporting***

## **Amortised cost using effective interest method (IAS 39)**

### **What is IAS 39?**

*IAS 39 Financial instruments: Recognition  
and measurement*

***IAS 39***

# ***Common challenges on IFRS reporting***

## **Amortised cost using effective interest method (IAS 39)**

### **Definitions**

Amount at initial recognition

+/- principal repayments

+/- allowance for impairment

+/- cumulative amortisation using EIR

**Amortised cost**

### ***Effective interest method***

- a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

### ***Effective interest rate***

- the rate that exactly discounts estimated future cash payments or receipts through the financial instrument's *expected life* or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

## ***Common challenges on IFRS reporting***

Amortised cost using effective interest method (IAS 39)

Question: What is the rate  
stated in the loan contract  
then?

## ***Common challenges on IFRS reporting***

### **Amortised cost using effective interest method (IAS 39)**

#### **Determining the effective interest rate**

- an entity should **estimate cash flows** considering all the financial instrument's contractual terms but should not consider future credit losses.
- include **all fees and points paid or received** between parties to the contract

$$r = \left( 1 + \frac{i}{n} \right)^n - 1$$

stated interest rate  $i$

effective interest rate  $r$

number of compounding periods  $n$

## ***Common challenges on IFRS reporting***

Amortised cost using effective interest method (IAS 39)

### **Estimated future cash flows**

- Using a set of ***estimated future cash flows*** through the expected life of the financial instrument using all the financial instrument's contractual terms, rather than *contractual* cash flows.

## ***Common challenges on IFRS reporting***

### **Amortised cost using effective interest method (IAS 39)**

#### **What are transaction costs and fees?**

- **Incremental** costs that are **directly attributable** to the acquisition or issue or disposal of a financial asset or financial liability.
- Fees and commissions paid to agents

# ***Common challenges on IFRS reporting***

## **Amortised cost using effective interest method (IAS 39)**

### **Examples and types of transaction costs and fees**

#### ***Loan origination fees***

*- fees associated with origination of a loan*

- Fees that are charged to the borrower as 'pre-paid' interest
- Fees to compensate the lender for origination activities.
- Other fees that relate directly to the loan origination process.

#### ***Commitment fees***

*- fees that are charged by the lender for entering into an agreement to make or acquire a loan.*

- Facility fees for making a loan facility available to a borrower.
- Sometimes referred to as facility fees



# Common challenges on IFRS reporting

## Amortised cost using effective interest method (IAS 39)

### Commitment fees

- Accounting treatment depends on whether or not it is probable that the entity will enter into a specific lending arrangement and whether the loan commitment is within IAS 39 scope.

If **probable** that the bank will enter into lending agreement

YES

NO

deferred and recognised as an adjustment to EIR

Revenue on a time proportion basis over the commitment period

If the commitment expires without making the loan, fee is recognised as revenue on expiry

# ***Common challenges on IFRS reporting***

## **Amortised cost using effective interest method (IAS 39)**

### **Example 1**

#### **Type**

Loan origination fees

Yes

Legal fees

Yes

Payments made to employees only on completion of each loan individual transaction

Yes

Marketing cost for new loans

No

Employment of new credit officer to increase loan portfolio

No

# ***Common challenges on IFRS reporting***

## **Amortised cost using effective interest method (IAS 39)**

### **True or False**

- 1) Effective interest rate can never be the same with nominal interest rate.

**FALSE**

- 2) Expected life can be beyond the contractual life of the agreement.

**FALSE**

- 3) In order for transaction fees be included in the effective interest calculation, these should be both incremental and directly attributable.

**TRUE**

- 4) Interest income using the effective interest method is normally lower than using the nominal interest rate when there are transaction costs and fees to be included.

**FALSE**

- 5) Difference between the total interest income for the whole life per effective interest method and interest income recognised using the nominal interest normally comes from the transaction costs.

**TRUE**


---

***Break time!***



# ***Common challenges on IFRS reporting***

## **Impairment of loans and advances to customers (IAS 39)**



How do we know  
if the loans are  
already  
impaired?



If, there is objective evidence  
of impairment as a result of  
one or more events that  
occurred after the asset's initial  
recognition.

## ***Common challenges on IFRS reporting***

### **Impairment of loans and advances to customers (IAS 39)**

#### **Two step process:**

***1. Carry out an impairment review every balance sheet date***

***2. If there is objective evidence of impairment, the entity should measure and record the impairment loss in the reporting period.***

# ***Common challenges on IFRS reporting***

## **Impairment of loans and advances to customers (IAS 39)**

### **Incurred vs expected losses**

#### **Incurred losses**

Recognised as there is objective evidence of impairment

#### **Expected losses**

Losses expected as a result of future events, no matter how likely, are not recognised

## ***Common challenges on IFRS reporting***

### **Impairment of loans and advances to customers (IAS 39)**

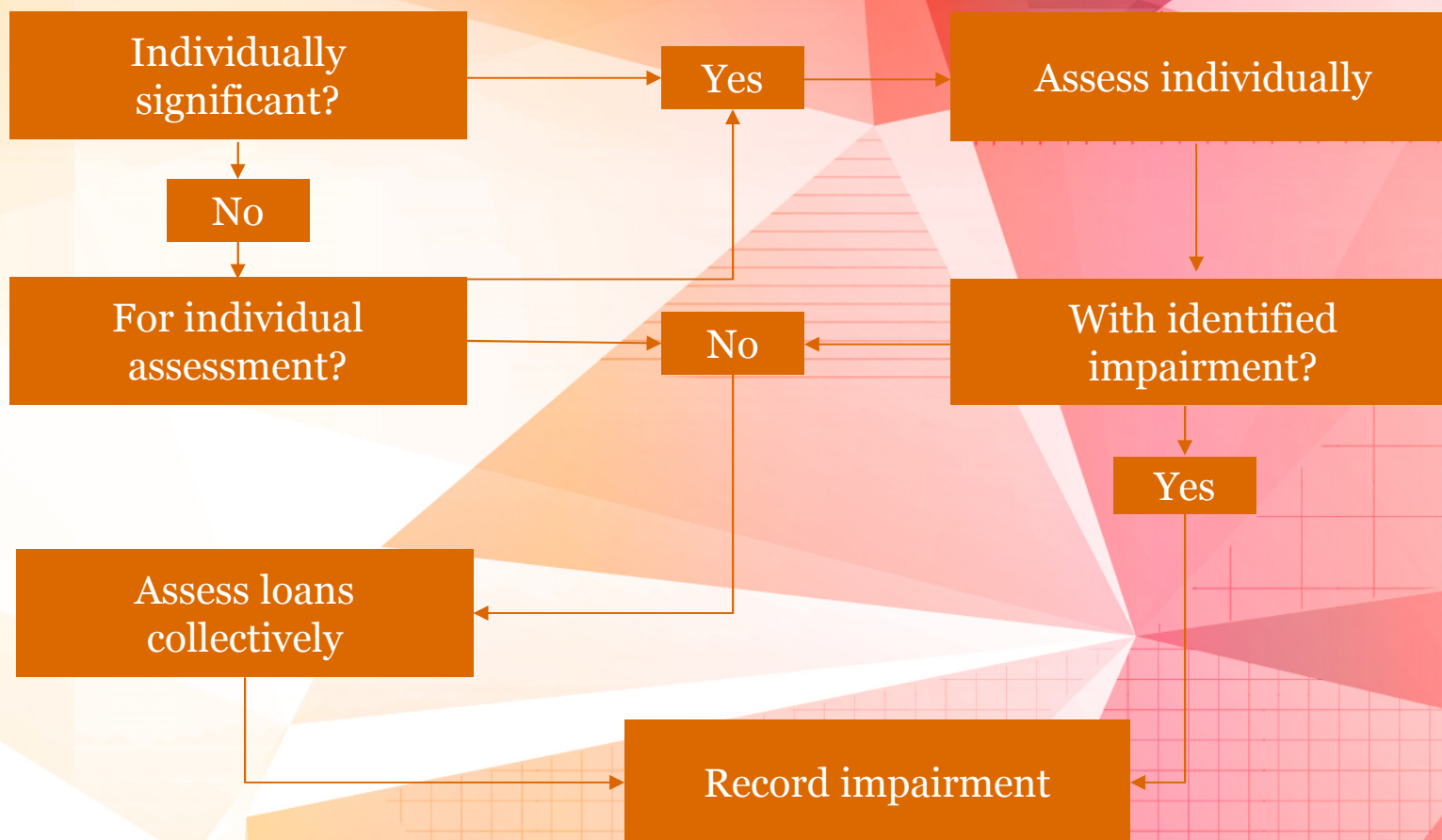
#### **Objective evidence of impairment**

- Significant financial difficulty of the issuer or obligor
- Breach of contract
- Bankruptcy
- Decrease in the estimated future cash flows



# Common challenges on IFRS reporting

## Impairment of loans and advances to customers (IAS 39)



## ***Common challenges on IFRS reporting***

### **Interest income recognition on impaired loans (IAS 39)**

#### **How much interest should we record?**

- An entity should not stop accruing interest on loans that are non-performing.

# ***Common challenges on IFRS reporting***

## **Financial risk management policies (IFRS 7)**

### **Mandatory disclosures**

- 1) Classes of financial instruments
- 2) Fair value measurement
- 3) Risk disclosures
- 4) Reclassification of financial assets
- 5) Other disclosures
  - Collateral
  - Offsetting of financial assets and liabilities
  - Transfer of financial assets and liabilities
  - Other quantitative disclosures

***Common challenges on IFRS reporting***  
Financial risk management policies (IFRS 7)

Quantitative  
disclosures

Qualitative  
disclosures

# ***Common challenges on IFRS reporting*** **Financial risk management policies (IFRS 7)**

**Credit risk**

**Liquidity risk**

**Market risk**

# ***Common challenges on IFRS reporting***

## **Financial risk management policies (IFRS 7)**

### **Credit risk**

#### **Quantitative disclosures**

- The **maximum exposure** to credit risk
- Financial effect of collateral held as security or other credit enhancement
- Credit quality of financial assets that are neither past due nor impaired.

#### **Qualitative disclosures**

- A description of collateral held as security and of other credit enhancements

# ***Common challenges on IFRS reporting***

## **Financial risk management policies (IFRS 7)**

### **Liquidity risk**

#### **Quantitative disclosures**

- A maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities.
- A maturity analysis for derivative financial liabilities.

#### **Qualitative disclosures**

- Description on how it manages the liquidity risk inherent

# ***Common challenges on IFRS reporting***

## **Financial risk management policies (IFRS 7)**

### **Market risk**

#### **Quantitative disclosures**

- A sensitivity analysis for each type of market risk

#### **Qualitative disclosures**

- The methods and assumptions used in preparing the sensitivity analysis.
- Changes from the previous period in the methods and assumptions used, and the reasons for such changes.



## ***Common challenges on IFRS reporting*** **Financial risk management policies (IFRS 7)**

### **Question and answer:**

Before the balance sheet date, an entity has breached the terms of loan agreement giving the counterparty the right to demand accelerated repayment. After the balance sheet date but before the signing of the financial statements the counterparty waives its right to demand accelerated repayment. Does the entity have to disclose the breach of covenant?

**Yes – the breach is regarded as remedied only if the waiver is legally enforceable on or before the balance sheet date in accordance with IFRS 7.**

# ***Common challenges on IFRS reporting***

## **Financial risk management policies (IFRS 7)**

### **True or false**

- 1) All financial instruments, including those measured at amortised cost, are required to have disclosure on the fair value.

True

- 2) Qualitative and quantitative disclosures are required. Accordingly, for each type of risk arising from financial instruments, an entity shall disclose the exposure to risk and how they arise and its objectives, policies and processes for managing the risk and the methods used to measure the risk, and summary quantitative data about its exposure to that risk at the end of the reporting period.

True

# Common challenges on IFRS reporting

## Taxes (IAS 12)

### Formula

### IFRS

Current income tax  
+/- Deferred income tax  
Income tax expense

Income tax payable

Deferred tax asset/liability

### Lao Tax Law

Current income tax  
=  
Income tax expense

# Common challenges on IFRS reporting

## Taxes (IAS 12)

### Formula

$$\text{Tax base of asset} = \text{Carrying amount} - \text{Future taxable amounts}^1 + \text{Future deductible amounts}$$

$$\text{Temporary difference} = \text{Future taxable amounts} - \text{Future deductible amounts}$$

$$\text{Tax base of liability} = \text{Carrying amount} - \text{Future deductible amounts} + \text{Future taxable amounts}$$

$$\text{Temporary difference} = \text{Future deductible amounts} - \text{Future taxable amounts}$$

Relationship	For assets	For liabilities
Carrying amount is more than the tax base	<b>Taxable</b> temporary difference Deferred tax liability (DTL)	<b>Deductible</b> temporary difference Deferred tax asset (DTA)
Carrying amount is less than the tax base	<b>Deductible</b> temporary difference Deferred tax asset (DTA)	<b>Taxable</b> temporary difference Deferred tax liability (DTL)
Carrying amount = tax base	None	None

# ***Common challenges on IFRS reporting***

## **Taxes (IAS 12)**

### **Objectives of IAS 12**

- It is inherent in the recognition of an asset or liability that that asset or liability will be recovered or settled, and this recovery or settlement may give rise to future tax consequences which should be recognised at the same time as the asset or liability.
- An entity should account for the tax consequences of transactions and other events in the same way it accounts for the transactions or other events themselves.

# ***Common challenges on IFRS reporting***

## **Taxes (IAS 12)**

### **Definitions**

- Deferred tax liabilities - The amounts of income taxes payable in future periods in respect of taxable temporary differences
- Deferred tax assets - The amounts of income taxes recoverable in future periods in respect of deductible temporary differences:
  - the carrying forward of unused tax losses, and
  - the carrying forward of unused tax credits

# *Impact of improperly prepared IFRS accounts*

## Modification of audit opinion

### **Public**

- ❖ Customers will lose their confidence in the Bank's reputation or credibility because of the reported misstated financial statements.
- ❖ Financial institutions may possibly deny requests for loan funding.

### **Shareholders**

- ❖ Sound decision making cannot be performed (whether to inject additional capital or not) as the financial statements are not fairly stated to reflect the bank's financial position and performance.

# *Impact of improperly prepared IFRS accounts*

## Modification of audit opinion

IFRS 1

IAS 8

How about for  
the banks?





---

# ***Impact of improperly prepared IFRS accounts***

## Questionable quality and transparency of the accounts

### Audit opinion

Companies produce financial statements that provide information about their financial position and performance. This information is used by a wide range of stakeholders (e.g., investors) in making economic decisions. Typically, those that own a company, the shareholders, are not those that manage it. Therefore, the owners of these companies (as well as other stakeholders, such as banks, suppliers and customers) take comfort from independent assurance that the financial statements fairly present, in all material respects, the company's financial position and performance.

## ***Key learning points***

<b>Key learning point</b>	<b>Services that we can provide</b>
1) Differences between IFRS and BoL reporting should be identified first in order to address the key differences to ensure compliance with IFRS.	<ul style="list-style-type: none"><li>- Accounting advice (IFRS Reporting)</li></ul>
2) Functional currency does not equate to reporting currency, and so banks should carefully and properly determine the functional currency. (IAS 21)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS reporting)</li><li>- Financial accounting (Training/seminar)</li><li>- Data analytics</li></ul>
3) Loans and advances to customers should be subsequently measured at amortised cost using the effective interest method. Transactions and fees should be properly analysed to be included in the effective interest rate calculation. (IFRS 9/IAS 39)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS reporting)</li><li>- Financial accounting (Training/seminar)</li><li>- Data analytics</li></ul>

## ***Key learning points***

<b>Key learning point</b>	<b>Services that we can provide</b>
4) Provision for impairment should only be recorded when objective evidence of impairment exists, and not based on the expected loss. (IFRS 9/IAS 39)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS reporting)</li><li>- Financial accounting (Training/seminar)</li><li>- Data analytics</li></ul>
5) Interest income on non-performing loans should be continuously recognised. (IFRS 9/IAS 39)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS reporting)</li><li>- Financial accounting (Training/seminar)</li></ul>
6) Deferred taxes resulting from temporary differences should be accounted for. (IAS 12)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS reporting)</li><li>- Financial accounting (Training/seminar)</li><li>- Tax compliance</li></ul>
7) Fair value of financial assets should be properly disclosed, including the quantitative and qualitative disclosures required to be shown under financial risk management. (IFRS 7)	<ul style="list-style-type: none"><li>- Accounting advice (IFRS Reporting)</li></ul>

## ***Key contact person*** **PwC team**



***Apisit Thiengtrongpinyo***  
*Associate Partner*  
*Email: [apisit.thiengtrongpinyo@la.pwc.com](mailto:apisit.thiengtrongpinyo@la.pwc.com)*



***May Tristeza***  
*Senior Core Assurance Manager*  
*Email: [may.d.tristeza@la.pwc.com](mailto:may.d.tristeza@la.pwc.com)*

## ***Key contact person*** **PwC team**



***Nokyoung Vannseng***  
*Senior Associate*  
*Email: Nokyoung.Vannseng*  
*@la.pwc.com*



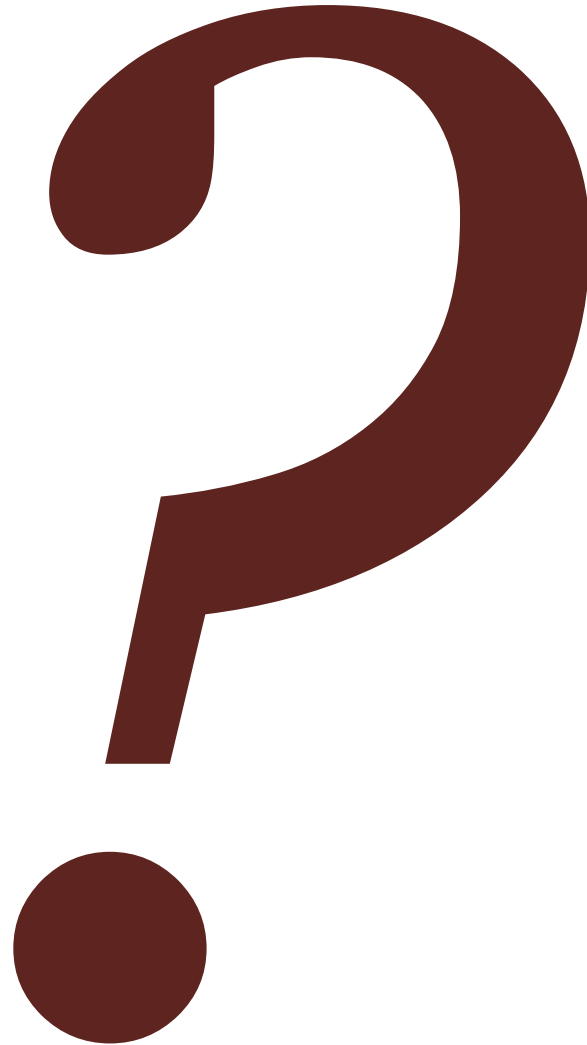
***Phanida Sanatem***  
*Senior Associate*  
*Email: Phanida.Sanatem*  
*@la.pwc.com*



***Paula Patricia C. Estimada***  
*Core Assurance Manager*  
*Email: paula.p.estimada@la.pwc.com*

---

## *Questions time*



When you plan to start IFRS, which is the first standard you should consider?

---

**IFRS**

---

*IAS 21 – The Effects of Changes in Foreign Exchange Rates*

*IAS 39 – Financial instruments: Recognition and Measurement (to be replaced by IFRS 9)*

*IAS 39 – Financial instruments: Recognition and Measurement (to be replaced by IFRS 9)*

---

---

**IFRS**

---

*IAS 12 – Income Taxes*

*IFRS 7 – Financial Instruments: Disclosures*

*IAS 19 – Employee Benefits*

---



This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PwC does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it

© 2016 PricewaterhouseCoopers Lao Sole Company Limited. PwC refers to the Laos member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see [www.pwc.com/structure](http://www.pwc.com/structure) for further details.