Financial Report Update

Issue 2 (August 2008)

Editors

Nangnoi Charoenthaveesub, Partner
Sukhumaporn Wong-ariyaporn, Partner
Pongthavee Ratanakoses, Senior Manager
Wandee Leevorawat, Senior Manager
Wittaya Ekwirunphon, Senior Manager

*connectedthinking

PricewaterhouseCoopers

In this issue

Federation of Accounting Professions – FAP

- Certain existing Thai Accounting Standards have been revised as part of the improvement project and are expected to be published in the Government Gazette soon. (Page 2)

International Financial Reporting Standards – IFRS

- IFRIC 16 Hedges of a net investment in a foreign operation was issued by the IFRIC. This will apply to entities that hedge the foreign currency risk arising from their net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. (Page 2)

- IFRIC 15 Agreements for the Construction of Real Estate was issued to standardise the accounting practice for the recognition of revenue from sales by real estate developers. (Page 3)

- Amendments were made to IFRS 1 First-time adoption of international financial reporting standards and IAS 27 Consolidated and separate financial statements. (Page 3)

- Amendments were made to IAS 32 and IAS 1 for the puttable financial instruments and obligations arising on liquidation. (Page 3)

- The International Accounting Standards Board (IASB) has issued the *Improvements to IFRSs* standard which amends 20 standards. (Page 4)

United States Generally Accepted Accounting Principles – US GAAP

- In March 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (”FAS 161”). (Page 6)

- In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (“FAS 162”). (Page 6)

- In May 2008, the FASB issued FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60* (“FAS 163”). (Page 6)

Thai Securities and Exchange Commission – Thai SEC

- On 22 May 2008, the Thai SEC circulated letter no. KorLorTor.Chor.(Wor) 29/2551 *re: guidance for the preparation of consolidated financial statements*. (Page 6)

Thai Federation of Accounting Professions (Thai FAP)

Additional revised Thai Accounting Standards awaiting endorsement in the Government Gazette

The following are the additional revised Thai Accounting Standards which will be effective for financial statements for accounting periods beginning on or after 1 January 2009 (early adoption is permitted):

Revised Thai Accounting Standards
- TAS 36: Impairment of Assets
- TAS 37: Revenue
  New Thai Accounting Standard
- TAS54: Non-Current Assets Held for Sale and Discontinued Operations

The key changes to the above revised TAS are as follows:

TAS 36 Impairment of Assets

- Concept of indefinite-lived intangible assets introduced from TAS 51.
- Recoverable amount for indefinite-lived intangibles, intangibles not yet available for use and goodwill to be measured annually.
- Clarification that cash inflows from future restructuring or enhancements are excluded from value in use.
- Requirement to allocate goodwill to CGUs benefiting from synergies within 12 months of end of period.
- Clarification that carrying value of allocated goodwill is included in disposal of CGU. Partial disposal of CGU to require apportionment of goodwill on a reasonable basis.
- Reversal of impairment losses on goodwill prohibited.
- Additional disclosures required of assumptions used in estimating recoverable amount for CGUs containing goodwill or indefinite lived intangibles
- Additional disclosures of amount of goodwill allocated to each CGU and, where appropriate, a declaration that no individual CGU holds a substantial portion.

TAS 37 Revenue

There were no significant changes to the revised TAS 37 Revenue, with the exception of the inclusion of TAS 26 *Revenue recognition for real estate business* as an option for entities that are significantly affected by recognition of revenue using the completion method. The term “significantly affected” has not been defined.

TAS 54 Non-Current Assets Held for Sale and Discontinued Operations. This replaces TAS 54 (2006).

- Investments in subsidiaries, investments in associates and investments in jointly controlled assets where intention is to dispose within 12 months are considered under TAS54.
- Clarification that depreciation of PPE ceases at earlier of date of de-recognition or classification as held for sale.
- Investments in associates and investments in jointly controlled entities no longer meeting held-for-sale criteria accounted for using equity method or proportionate consolidation from date originally assessed as held for sale. Financial statements for prior periods to be amended for reclassification.
- Profit or loss from discontinued operations disclosed as single line item in income statement.
- Assets held for sale and assets and liabilities included in disposal group are separately presented on balance sheet.
- Segment results for individual reportable segments split between continuing and discontinuing operations.
- Non-current asset that meets criteria as held for sale to be separately classified in financial statements.
- PPE classified as held for sale to be included in reconciliation of carrying amount at beginning and end of period.

International Financial Reporting Standards IFRS

IFRS- IFRIC 16 Hedges of a net investment in a foreign operation

In July 2008, the IFRIC issued IFRIC 16 Hedges of a net investment in a foreign operation.

IFRIC 16 applies to entities that hedge the foreign currency risk arising from their net investments in foreign operations and wish to qualify for hedge accounting in accordance with IAS 39. It does not apply to other types of hedge accounting. The interpretation is effective for annual periods beginning on or after 1 October 2008.

IFRS – IFRIC 15 Agreements for the Construction of Real Estate

In July 2008, the IFRIC issued IFRIC 15 Agreements for the Construction of Real Estate.

The interpretation will standardise the accounting practice across jurisdictions for the recognition of revenue among real estate developers for sales of units, such as apartments or houses, 'off plan', i.e. before construction is complete

In this interpretation there are two issues raised. The first one is whether the agreement is within the scope of IAS11 or IAS 18. IAS 11, which recognises revenue based on percentage of completion, will be applied for contracts which meet the definition of construction contracts under IAS 11. Otherwise the entity is required to apply IAS 18, which recognises revenue based on the transfer of the risks and rewards of ownership. The second issue is when revenue from the construction of real estate should be recognised. The above determination would depend on the terms of the agreement and all surrounding facts and circumstances.

The agreements that will be affected will be mainly those currently accounted for in accordance with IAS 11 that do not meet the definition of a construction contract as interpreted by the IFRIC and do not transfer to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses.

The interpretation is effective for annual periods beginning on or after 1 January 2009 and is to be applied retrospectively.

Amendments to IFRS 1 First-time adoption of international financial reporting standards and IAS 27 Consolidated and separate financial statements - Cost of an investment in a subsidiary, jointly controlled entity or associate

The amendments address issue relating to concerns that retrospective determining cost and applying the cost method in accordance with IAS 27 on first time adoption of IFRS can not, in some circumstances, be achieved without undue cost or effort.

1. By allowing first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements; and
2. By removing the definition of the cost method from IAS 27 and replacing it with a requirement to present dividends as income in the separate financial statements of the investor.

The amendments to IAS 27 also respond to queries regarding the initial measurement of cost in the separate financial statements of a new parent formed as the result of a specific type of reorganisation. The amendments require the new parent to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganisation.

The amendments to IFRS 1 and IAS 27 will apply for annual periods beginning on or after 1 January 2009, with earlier application permitted.

IAS 32 and IAS 1 amendment - Puttable financial instruments and obligations arising on liquidation

On 14 February 2008, the International Accounting Standards Board (IASB) issued amendments to improve the accounting for particular types of financial instruments that have characteristics similar to ordinary shares but are at present classified as financial liabilities.

The amendments, which respond to requests from entities around the world, are set out in Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation.

IAS 32 requires a financial instrument to be classified as a liability if the holder of that instrument can require the issuer to redeem it for cash. That straightforward principle works well in most situations. However, many financial instruments that would usually be considered equity, including some ordinary shares and partnership interests, allow the holder to 'put' the instrument (to require the issuer to redeem it for cash). Currently these financial instruments are considered liabilities, rather than equity.

The amendments to IAS 32 address this issue and require entities to classify the following types of financial instruments as equity, provided they have particular features and meet specific conditions:

- puttable financial instruments (for example, some shares issued by co-operative entities)
- instruments, or components of instruments, that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on

liquidation (for example, some partnership interests and some shares issued by limited life entities).

Additional disclosures are required about the instruments affected by the amendments.

The amendments will apply for annual periods beginning on or after 1 January 2009, with earlier application permitted.

Improvements to IFRSs

The IASB has issued the *Improvements to IFRSs* standard which amends 20 standards, on the basis of the conclusions and guidance base on the exposure draft issued in October 2007. The improvements include changes in presentation, recognition and measurement plus terminology and editorial changes. Most of the amendments are effective for annual periods beginning on or after 1 January 2009.

The key improvements to the affected standards are as follows:

IAS 1 Presentation of Financial Statements

- Clarification that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39 are examples of current assets and liabilities respectively.

IAS 16 Property, Plant and Equipment (and consequential amendment to IAS 7, 'Statement of Cash Flows')

- Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue.
- The carrying amount of the asset is transferred to inventories when the asset becomes held for sale.
- A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities.
- Wording of definition of recoverable amount has been aligned with IAS 36, 'Impairment of Assets'

IAS 19 Employee Benefits

- A plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment.
- An amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- Definition of return on plan assets amended to state that plan administration costs be deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short term and long term employee benefits is now based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- Deletion of guidance that states IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' requires contingent liabilities to be recognised.

IAS 20 Accounting for Government Grants and Disclosure of Government Assistance

- The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received.
- The benefit is accounted for in accordance with IAS 20.

IAS 23 Borrowing Costs

- The definition of borrowing costs has been amended. Interest expense is calculated using the effective interest method defined in IAS 39.

IAS 27 Consolidated and Separate Financial Statements

- Where an investment in a subsidiary that is accounted for under IAS 39 is classified as held for sale under IFRS 5, IAS 39 (as opposed to IFRS 5) would continue to be applied.

IAS 28 Investments in Associates (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial Instruments: Disclosures')

- Where an investment in associate is accounted for in accordance with IAS 39 only certain (rather than all) disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32/IFRS 7.

- An investment in associate is treated as a single asset for the purposes of impairment testing.
- Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill.
- Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases.

IAS 29 Financial Reporting in Hyperinflationary Economies

- Amended guidance to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

IAS 31 Interests in Joint Ventures (and consequential amendments to IAS 32 and IFRS 7)

- Where an investment in joint venture is accounted for in accordance with IAS 39, only certain (rather than all) disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32/ IFRS 7

IAS 36 Impairment of Assets

- Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made.

IAS 38 Intangible Assets

- An asset may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services.
- Advertising and promotional activities includes mail order catalogues.
- Deletion of wording that states that there is ‘rarely, if ever’ support for use of a method that results in a lower rate of amortisation than the straight line method.

IAS 39 Financial Instruments: Recognition and Measurement

- Clarification that it is possible for there to be movements into and out of the fair value through profit or loss category where: – A derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- Financial assets are reclassified following a change in policy by an insurance company in accordance with IFRS 4.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- Removal of a segment as an example of what may be considered a party external to the reporting entity.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used. If it is no longer appropriate to classify an investment as held to maturity.

IAS 40 Investment Property (and consequential amendments to IAS 16)

- Property that is under construction or development for future use as investment property is within the scope of IAS 40.
- Where the fair value model is applied, such property is, therefore, measured at fair value.
- Where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed or the date at which fair value becomes reliably measurable.

IAS 41 Agriculture

- Use of a market-based discount rate where fair value calculations are based on discounted cash flows.
- Removal of the prohibition on taking into account biological transformation when calculating fair value.

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (and consequential amendment to IFRS 1, ‘First-time Adoption’)

- All of a subsidiary’s assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control.
- If the subsidiary described above is a disposal group meeting the definition of a discontinued

operation, the relevant disclosures should be made.

- A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs

The wording of the following standards has been changed for clarify

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 Events after the Reporting Period
IAS 18 Revenue
IAS 34 Interim Financial Reporting
IFRS 7 Financial Instruments: Disclosures

United States Generally Accepted Accounting Principles - US GAAP

US GAAP – FAS 161, Disclosures about Derivative Instruments and Hedging Activities, amendment of FASB Statement No. 133

In March 2008, the FASB issued FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* ("FAS 161") to enhance the current disclosure framework in FAS 133. Disclosures shall be made about how and why an entity uses derivative instruments and how derivative instruments and related hedged items are accounted for. In addition, entities will also be required to disclose how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS 161 is effective from 1 January 2009 for calendar year-end companies. Early adoption is encouraged.

US GAAP – FAS 162, The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* ("FAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements that are presented in conformity with US GAAP. FAS 162 move the GAAP hierarchy which previously resided in the AICPA's statements on auditing standard to the accounting literature, thereby directing it to reporting entities instead of their auditors. The FASB does not expect FAS 162 to result in a change in current practice. This Statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411 The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.

US GAAP – FAS 163 Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60

On May 23, 2008, the FASB issued FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60* ("FAS 163"). FAS 163 clarifies how FAS 60, Accounting and Reporting by Insurance Enterprises, applies to financial guarantee insurance contracts as defined in this new standard and excludes from its scope mortgage guarantee insurance and credit insurance on trade receivables, as well as financial guarantee contracts that are derivative instruments under FAS 133 Accounting for Derivative Instruments and Hedging Activities.

FAS 163 requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation. It also requires expanded disclosures about financial guarantee insurance contracts.

FAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. However, certain disclosure requirements are effective for the first period (including interim periods) beginning after issuance of this standard. Except for those disclosures, earlier application is not permitted.

Thai Securities and Exchange Commission Thai SEC

Thai SEC circulated a letter providing guidance on the preparation of consolidated financial statements.

On 22 May 2008, the Thai SEC circulated letter no. KorLorTor. Chor. (Wor) 29/2551 outlining guidelines for the preparation of consolidated financial statements by listed companies in cases where control may exist even though the subsidiaries by parent company is less than 50%.

The definition of "control" under TAS 44 is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. However, under the following circumstances, the Thai SEC shall assume that the parent company has control over its subsidiaries, and their financial information should therefore be consolidated in the parent company's consolidated financial statements unless there is a justifiable reason for not doing so.

- The listed company has sold its equity in the subsidiary, but the significant risks and reward of ownership have not yet been transferred to the buyer.
- The majority funds of the subsidiary come from the listed company.
- The subsidiary's operation can be considered part of the listed company's operations as the related risks and rewards are with the listed company.

Annual conference - Financial Reporting Update 2008 on 20-21 November 2008

Following the success of last year's PwC Financial Reporting Updated (FRU), which attracted over 400 attendees, PricewaterhouseCoopers will organise the Seventh Financial Reporting Update 2008, to be held on 20-21 November 2008. The conference has been designed to provide the insight developments of Thai GAAP and IFRS and to offer practical and in-depth guidance on Thai GAAP and IFRS applications. Please reserve the date in your diary to join us. Speakers are experienced partners and directors of PwC, and all presentations are in Thai language. More information and registration period will be communicated to you soon.

Our Financial Reporting Update is an accounting alert produced by the Accounting Consulting Group of PricewaterhouseCoopers Thailand to apprise PwC clients and other friends of emerging business and technical issues. Throughout this Financial Reporting Update, there are references to several websites, including PwC's global corporate reporting website www.pwc.com/ifrs. For further information on our publications, and to download useful tools such as 'Comperio IFRS' and 'Applying IFRS', please visit www.pwc.com/applyingifrs. For further information on PwC Thailand, please visit www.pwc.com/th

The firms of the PricewaterhouseCoopers global network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for clients and their stakeholders. More than 146,000 people in 150 countries across our network share their thinking to develop fresh perspectives and practical advice.

In the Southeast Asia Peninsula region, which comprises Malaysia, Thailand, Vietnam, Cambodia and Laos, over 3,000 people across these five countries share knowledge, resources, and experience to best serve our client's needs across the region.