Thailand jumps through IFRS hoops

Like many other Asian nations, Thailand is in the process of adopting IFRS. This is a progressive step for the Southeast Asian nation, but Mazars Thailand assistant director of accounting **Jonathan Fryer** says a number of local issues could provide a short-term hurdle

"Over the past decade, Thailand has been issuing new Thai Accounting Standards (TAS) that have been based on the equivalent IFRS. While the result has been a marked improvement in the quality of accounting and in the financial statements themselves, Thailand has been unable to implement those standards that cover some of the technically more complex accounting concepts, such as financial instruments, deferred taxation and employee benefits.

This has resulted in the application of some inconsistent accounting policies among Thai companies in the treatment of, for example, derivatives, hedging or severance obligations. Cross-border comparability of the performance of Thai companies with other similar companies in the region has, therefore, been more difficult.

Furthermore, those Thai companies that are required to report to an overseas group have been obliged to maintain both a local set of books and a corporate set, which requires additional resources, time and cost.

IFRS for listed companies

It has been extensively reported in Thailand that the local Federation of Accounting Professionals (FAP) and the Securities and Exchange Commission of Thailand (SEC) have drawn up a road map for Stock Exchange of Thailand (SET)-listed companies to become fully compliant with TAS adopted from IFRS.

The top 50 listed companies' (SET50) first set of accounts under these requirements will be as at 31 December 2011, which means the opening balance sheet is required as at 1 January 2010.

It is expected that the top 100 listed companies (SET100) will be required to comply with accounts as at 31 December 2013, with the remaining listed companies and Thailand's Market for Alternative Investment-listed entities in compliance as at 31 December 2015. It is important to note, however, that the above deadlines have yet to be finalised due to unresolved issues between the interested parties.

A significant exception to all of the above is that IAS 39 Financial Instruments will not be applicable until 2013. Of course, by then IFRS 9 will have replaced IAS 39, but it is not clear how the FAP will handle this as part of the convergence process.

A recent renumbering of TAS in line with the equivalent IFRS has served to highlight those standards which have yet to be issued in Thailand. Furthermore, during a period in which the International Accounting Standards Board is continuously making amendments and issuing new standards, Thailand is unable to match the pace at which this work is being performed and implemented. There is a possibility, therefore, that rather than converge TAS may actually diverge momentarily from IFRS.

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> Jonathan Fryer, Mazars Thailand

Teething problems

There is a shortage of Thai accountants who have experience in reporting under IFRS. Moreover, the FAP and the local universities did not have access to dedicated training resources in IFRS until very recently. This has resulted in a limited local understanding of the requirements of IFRS and a lack of technical expertise in, for example, IAS 39 or IFRS 7.

Local auditors will have a key role to play in the convergence to IFRS as they must ensure their clients are fully compliant. Thailand, therefore, might have some obstacles to overcome on the road to convergence, but it is in the fortunate position of being able to draw upon the knowledge and experience of its regional neighbours such as Singapore and Hong Kong, who have already been through the process.

It is important to appreciate it is not only listed companies that need to think about the impact of IFRS in Thailand. Analysts and investors will need to be educated on the concepts and behaviour of the new issues raised. Of equal importance, local regulators will have to think about the implications and impact of IFRS on their own rules and regulations. Take, for example, the Bank of Thailand, which most likely will need to redefine its capital adequacy ratio requirements in the context of balance sheets prepared under IFRS.

Jonathan Fryer, Mazars

Apart from the imminent impact on listed companies, there will be a filter-down effect on all financial reporting in Thailand. As yet, there are no plans to adopt the new IFRS for SMEs. Instead, it is very likely the FAP will continue to make standards such as those covering impairment, consolidation or financial instruments non-compulsory for all non-listed companies.

Most of the SET50 companies have now either appointed an external advisor to perform an impact evaluation or are using dedicated in-house teams. SET100 companies are waiting to see how the land lies in two years time.

It would not be unreasonable to conclude that some short-term pain will be inevitable. However, with the TAS/IFRS convergence project well underway, given a gradually increasing familiarity with IFRS-based TAS among local accountants and with a deep pool of experience in the region to draw from, the medium- to long-term outlook for high quality financial reporting in Thailand looks bright."