

## **Changes to financial statements will increase transparency**

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On June 16, the Bank of Thailand (BOT) held a public hearing regarding the format of its new financial statements for banking and financial institutions operating in the Kingdom.

The financial statements have been changed in line with the new Thai Accounting Standards (TAS) and to support more complex financial transactions. The format has also been adjusted to provide better information for a wider range of users.

The important changes in the statements don't deal just with the implementation of new TAS but also with the new presentation and classification of assets, liabilities, revenues and expenses. On the asset and liability side, the focus is on Derivative Assets and Derivative Liabilities, which are now presented as a separate line in financial statements. These items will reflect the volume of derivative transactions previously treated as off-balance-sheet items.

On the revenue and expense side, the whole structure has been adjusted to clearly present each type of transaction. For example, interest income is excluded from dividend income in order to display the main sources of banks' revenues. Fee income and expense are also shown as separate lines to correspond with banks' business models, which are moving toward fee-based transactions.

Net profit or loss from trading activities and from foreign exchange transactions is a new item designed to represent incomes and expenses arising from trading and foreign exchange portfolios, which are becoming more important.

For information disclosure, financial institutions are obliged to disclose risk management policies in the notes to their financial statements. Such policies must cover credit risk, interest rate risk, foreign exchange risk, equity risk, commodity risk and liquidity risk. This requirement will provide better information on the level of risks taken by financial institutions.

The new form of financial statements definitely affects financial ratios and regulatory ratios of financial institutions, since the components of net income, equity and total capital will be altered according to the new accounting standards and classification in financial statements. The affected ratios will include Return on Equity (ROE), Return on Asset (ROA) and Capital Adequacy Ratio (BIS Ratio). Analysts may need to pay attention to and understand the cause of changes in accounting numbers, which inevitably results in changes in the ratios.

The new notifications in financial statements will appear from January 1, 2011. Although the enforcement of the notification is expected to result in significant adjustment in accounting and information systems of financial institutions, the new format and presentation of financial statements will enhance transparency, consistency and accuracy of information, which will be important for the international advance of Thai financial institutions.

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**(The views expressed are the author's own.)**

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