

## **Time to prepare for big changes in accounting rules**

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In the world of business, accounting is an essential tool that allows companies to keep track of their transactions and to provide information about their financial status to shareholders or investors.

At present, the International Accounting Standards - such as IAS 39 and IFRS 9 - are the new trend that everyone is paying attention to.

Developed by the International Accounting Standards Board (IASB), the objective of IAS 39 is basically to establish principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The key mechanism for recognising each item, including derivatives, is to record it at its fair value - the price that would be received in selling the asset, or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Many European countries, along with Singapore, Hong Kong and the Philippines, have stepped up to this standard. As for Thailand, commercial banks have partially adopted the IAS 39, and some are now preparing to fully adopt the standard sometime in the future.

Although most Thai companies are still using the Thai Accounting Standards (TASs), it would be wise to look ahead and see how the new standards might affect their financial statements. First of all, the new standards divide financial instruments into four categories: 1) financial asset or financial liability at fair value through profit or loss; 2) held-to-maturity investments; 3) loans and receivables; and 4) available-for-sale financial assets.

Some items, such as financial assets or financial liabilities, are required to be "marked to market", which means these items will be shown on the balance sheet in their market value, and the difference between the market price and historical cost will be recognised as profit or loss on the income statement. As for TASs, marking-to-market is just optional. By complying with the new standard, companies will

have to change the way items are recorded, resulting in changes to financial figures. Of course, the degree of change will vary from one company to another depending on the exposure each firm is faced with.

How do companies benefit from this new rule? First of all, the use of the fair value method will reflect the true financial status, thus enhancing transparency in firms. Secondly, companies adopting IAS 39 will be recognised for being on a par with the international standard. Firms adopting the new standard may find things more convenient when it comes to accessing funding or undertaking business expansion abroad.

The key concern in adopting the new standard is how to cope with the upcoming changes - including the new recording methods - as well as losses that may be incurred, such as from marking-to-market derivatives transactions. Being aware of these changes will help companies stay one step ahead in terms of preparing to reduce uncertainty through hedging current exposure, setting up a solid foundation for adopting the new accounting system, and creating awareness among employees.

The bottom line is that market players' behaviour may be altered as companies seek to find tools and hedging instruments that will fit them best in the new environment. Along with their clients, commercial banks will also need to have their systems ready and financial products available to suit clients' needs, while the regulators, such as Bank of Thailand, the Securities and Exchange Commission and the Revenue Department, have to monitor and catch up with the changes to the business environment. That is to say, everybody should be prepared and get ready to adjust to this forthcoming rule!

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**(The views expressed in this column are the writer's own.)**

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