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Notification of the Bank of Thailand

No. SorNorSor. 67/2551

RE: Guidelines on Accounting of Financial Institutions

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1. Rationale

Normally, financial institutions, like other juristic persons, shall conduct accounting, in accordance with the Accounting Standards set out by the Federation of Accounting Professions. However, since financial institution's business has a specific characteristic which is different from other businesses, some types of transactions may not be covered by the Accounting Standards or the existing accounting standards may not be clearly defined for a particular circumstance which requires interpretation or certain Accounting Standards can be applied in many ways. As a consequence of such facts, it may be unclear and causes each financial institution to apply it differently. Thus, the Bank of Thailand deems that it is necessary to set out accounting guidelines for the areas that cause such problems so that all financial institutions shall apply them for the same standard in addition to the compliance with the accounting standards stipulated by the Federation of Accounting Professions in normal cases. The guidelines set out by the Bank of Thailand shall be in line with the principle and framework of the Accounting Standards stipulated by the Federation of Accounting Professions or in the case where the Federation of Accounting Professions has not set out a standard for such matter, the Bank of Thailand shall use the International Financial Reporting Standard (IFRS) as a reference.

This Notification is issued in accordance with the Financial Institutions Businesses Act B.E. 2551 and as a compilation of all the Bank of Thailand's Notifications and Circulars regarding accounting guidelines. The essence of the guideline has not been changed from the existing one, except for Section 6 Re: Accounting for Bill Trading which has been enhanced in accordance with the accounting standard. In addition, due to the fact that the existing accounting in some areas are different among commercial banks, finance companies and credit foncier companies, the Bank of Thailand has thereby introduced accounting practices for all types of financial institutions to be in the same standard according to the spirit of the Financial Institutions Businesses Act B.E. 2551. In case where the transactions incurred before this notification is enforced and the financial institutions have already complied with the existed regulation at such time, financial institutions may follow the existed guideline for such transactions until the contracts are expired.

2. Statutory Power

By virtue of Sections 62 and 66 of the Financial Institutions Businesses Act B.E. 2551, the Bank of Thailand issues the guidelines on accounting for financial institutions to comply with as prescribed in this Notification.

3. Scope of Application

This Notification shall apply to all financial institutions under the Financial Institutions Businesses Act.

4. Repealed Circulars and Notifications

Repealed Circulars and Notifications are as prescribed on Attachment 1.

5. Contents

Section 1
Accounting for Sales of Foreclosed Assets

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1. In this Notification

1.1 The following definitions shall be in accordance with Sections 4 and 49 of the Financial Institutions Businesses Act B.E 2551 as listed in Attachment 2:

1.1.1 **"Person with management authority"**

1.1.2 **"Related party"**

1.1.3 **"Major shareholder"**

1.1.4 **"Business with beneficial interest"**

1.2 **"Executive Director"** means executive director in accordance with the Notification of the Bank of Thailand Re: Governance of Financial Institutions.

1.3 **"Financial Group"** means financial group in accordance with the Notification of the Bank of Thailand Re: Guideline on Consolidated Supervision.

2. These guidelines shall be applied to sales of all types of foreclosed assets, except debt instruments and equity instruments.

3. Criteria of income recognition of sales of foreclosed assets

Financial institutions may recognize any income from the sales of foreclosed assets when all of the following conditions are met, which is in coherence with the Accounting Standard No. 37 Re: Income recognition.

3.1 Significant risks and returns of ownership of the foreclosed assets have been transferred to the buyer;

3.2 Financial institutions retain neither managerial involvement to the degree that usually associated with ownership nor direct or indirect control over the assets sold;

3.3 The amount of revenue from sales can be measured reliably;

3.4 It is highly probable to obtain economic benefits associated with the transaction;

3.5 The cost incurred or to be incurred in respect of the transaction can be measured reliably.

4. Accounting for the Sales of Foreclosed Assets

4.1 Any sales of foreclosed assets that do not meet the criteria in Clause 3 shall be accounted for as a deposit receipt;

4.2 Except for the sales of foreclosed assets in accordance with 4.3, if the sales of foreclosed assets meet the criteria in Clause 3, financial institutions shall consider the transactions separately into two categories: 1) sales to the general public; 2) sales to business with beneficial interest, director, manager, deputy manager, assistance manager, or person under other titles with equivalent authority, person with managing authority of financial institutions, major shareholders or related parties to aforementioned persons. The accounting for each category is as following.

4.2.1 The sale of foreclosed assets to the general public in an amount exceeding Baht 10 million, financial institutions can recognize the entire amount of profit as revenue when the following conditions are met.

(1) Receiving cash in form of cash at an amount not less than 20% of the selling price;

(2) The buyer demonstrates that he/she is capable of paying for such assets in full amount.

Where sales of foreclosed assets do not satisfy the above conditions, profits shall be recognized as revenue in accordance to the proportion of cash receipt to the selling price until said conditions have been met, then, the entire profit shall be recognized as revenue. For example, in case where the payment has been initially made in cash less than 20%, and financial institutions lend more than 80%, the total profit shall be recognized as revenue when a cash payment of 20% or more has been made.

4.2.2 The sale of foreclosed assets to a business with beneficial interest, director, manager, deputy manager, assistance manager, or person under other titles with equivalent authority, person with managing authority of financial institutions, major shareholder or related parties to aforementioned persons shall be as follows:

(1) In the case where no loan has been granted by financial institutions or companies in the financial group of financial institutions,

(1.1) Financial institutions shall recognize the whole amount of profit as income when the full payment has been made in cash.

(1.2) In the case of payments by installments, financial institutions shall recognize the whole amount of profit as revenue when the full payment has been made according to contract (Cost Recovery Method).

(2) In the case where financial institutions or companies in financial group of financial institutions have granted loans,

(2.1) In the case where a loan is granted for full payment of asset, financial institutions shall recognize the whole amount of profit as revenue when the full repayment of the loan has been made according to contract (Cost Recovery Method).

(2.2) In case where a loan is granted for a partial payment of asset and the remaining is paid in cash. The portion which has been paid in cash, financial institutions shall recognize profit as revenue according to the proportion of cash payment to the selling price. For the portion which has been paid by loan, financial institutions shall recognize the whole amount of profit as revenue when the full repayment of the loan has been made according to contract (Cost Recovery Method).

In this regard, the regulations and procedures for the sales of foreclosed assets to a director, manager, deputy manager, assistance manager, or person under other titles with equivalent authority, person with managing authority of financial institutions, major shareholder or related parties to aforementioned persons shall be in accordance with the Section 48(4) of the Financial Institutions Businesses Act B.E. 2551 and the Notification of the Bank of Thailand Re: Guideline on Sales, Disposes or Lease Assets to Director and other persons stipulated under Section 48(4) or purchase or rent assets from such persons.

4.3 In case of selling foreclosed assets to Bangkok Commercial Asset Management Company (BAM) and receiving payment in form of promissory note, if such transaction has been done in accordance with the guideline mentioned in Clause 3, financial institutions shall comply as follows:

4.3.1 Since the promissory note received from the BAM is a liability resulting from sales of foreclosed assets, not a loan in the normal course of business of financial institutions, such liability shall be recorded as other account receivables account in the line of Other Assets in the financial statement at fair value calculated from future cash inflow after discounting with interest rate set out under the Accounting Standard No. 37 Re: Revenue Recognition and subsequent amendments. In case such interest rate is not available, financial institutions shall use the rate derived from the yield curve of the government bond. If the government bond with same maturity as the promissory note from BAM is also not available, financial institutions shall apply interpolated method derived from the yield curve of the government bond.

4.3.2 Recognition of profit from sales of foreclosed asset as revenue, as prescribed in Clause 4.2 is under the concept of conservatism. Financial institutions must be confident that the sale will not be cancelled and the buyer is capable of making payment. In case of BAM which 100% of its shares owned by Financial Institutions Development Fund (FIDF), if the sale has been complied with the guideline in Clause 3, financial institutions shall recognize the entire amount of profit as revenue.

4.4 Sales of foreclosed assets which financial institutions are obligated to take further actions and such actions may affect the profit significantly such as obligation to transferring residents, obligation to demolish of structure, etc. In calculating profit on such sales, financial institutions shall deduct expected future expenses, in the same proportion to the recognition of profit in each case the selling price, from the profit in the same manner as profit recognition on a case by case basis. The expected expenses shall be estimated in accordance with the guideline prescribed in the Accounting Standard No. 53 Re: Provisions, Contingent Liabilities and Contingent Assets and subsequent amendments thereof.

4.5 In case of a loss from the sales of foreclosed assets, financial institutions shall recognize such loss in full amount immediately in the income statement.

5. Financial institutions shall disclose information regarding sales of foreclosed assets in the notes to financial statement.

6. Examples of accounting for sales of foreclosed assets (for the Clause 4.2) are illustrated in the Attachment 3.

Section 2

Accounting for Investments

In order to be in coherence with and maintain same standard in recording investment in debt and equity instruments, excluding investment in debtors of financial institutions, the Bank of Thailand has required financial institutions to comply as follows:

1. Financial institutions shall record investments in debt and equity instruments in accordance with the criteria specified in the Accounting Standard No. 40 Re: Accounting for Investment in Debt and Equity Instruments and subsequent amendments thereof. In case that Accounting Standard No. 40 does not address any financial instruments or derivatives, financial institutions shall comply with the International Accounting Standard No. 39 (IAS 39) as:

1.1 Debt instrument means an instrument which indicate that the issuer is obligated, directly or indirectly, to pay cash or other asset to the holder of such instrument according to the amount and condition clearly or implicitly specified such as (1) bond, (2) treasury bill, (3) other instruments issued by Thai Government, State Organization, State Enterprise or juristic person, established under specific law, for a fund raising purpose, (4) debenture, (5) bill of exchange issued by the commercial bank for inter-bank borrowing and public fund raising in accordance with the guideline set out by the Bank of Thailand, (6) bill of exchange issued by the finance company for public fund raising, (7) bill of exchange issued by any other businesses for fund raising purposes and with similar characteristic as debenture, (8) FRN FRDC or other instruments which are a debenture or with similar characteristic as debenture with approval from the Securities and Exchange Commission and Stock Exchange of Thailand, (9) credit linked note issued by commercial bank in accordance with the Bank of Thailand’s guidelines such as credit linked notes and structured notes, (10) promissory note received from Thai Asset Management Corporation (TAMC) as a payment on transferring low quality asset and (11) other debt instruments that the Bank of Thailand may later specify.

1.2 Equity instrument means an instrument which indicates the possession of the holder on the residual interest in the assets after deducting all liabilities of investee such as (1) common stock, (2) preferred stock, (3) instrument with same characteristic as equity instrument such as stock warrant, (4) other equity instruments that the Bank of Thailand may later specify.

2. Fair value assessment

2.1 Fair value assessment for investment in debt instrument

2.1.1 Investment in debt instrument sold in Thailand

In the case where a yield curve is available, financial institutions shall calculate the fair value based on the formula specified in the Circular Letter No. ThorPorTor. NorWor. (Wor) 1086/2538 dated 22 May 1995 Re: Standards on Offering and Pricing of Sale/ Purchase of Government Securities in the Secondary Market and subsequent amendment thereof. In the case where the market price is available or assessed price is reliable, financial institutions may use such price as fair value. The mentioned two cases shall comply with the following rules:

(1) Debt instrument in an active market

(1.1) Debt instruments of following types: treasury bill, government bond, the Bank of Thailand bond, the FIDF bond, state enterprise bond, shall use the yield curve or latest average bid price posted on the website of the Thai Bond Market Association (Thai BMA)

(1.2) Debt instrument which is a corporate debenture shall use the yield curve or latest average bid price posted on the website of the Thai BMA or other markets supervised by governmental organizations where such debt instrument is traded.

(2) Debt instrument in an inactive market or the available market is not qualified to be an active market

(2.1) Debt instrument which is a corporate debenture shall use the yield curve or latest average bid price of government bond or the interpolated yield of government bond posted on the website of the ThaiBMA plus an appropriate risk premium.

(2.2) Financial institutions shall assess fair value of the debt instrument with embedded derivative in accordance with the Notification of the Bank of Thailand Re: Guideline on Risk Management for Derivatives.

(2.3) Government saving bonds shall use the redeemed price before maturity according to the various periods notified by the Bank of Thailand.

(2.4) For other instruments sold domestically other than those mentioned in (2.1), (2.2) and (2.3), the fair value shall be assessed by reliable financial institutions. In this regard, financial institutions acting as the assessor shall provide reliable reasons in writing or calculate fair value from the rate specified in (2.1) plus an appropriate risk premium.

2.1.2 Investment in debt instrument sold abroad, financial institutions shall comply as follows:

(1) Debt instrument in an active market

Financial institutions shall use the price published by reliable sources such as Bloomberg, Reuters, Telerate or Euroclear as fair value for the debt instrument sold abroad.

(2) Debt instrument in an inactive market or the available market is not qualified to be an active market

The foreign financial institutions who are the seller or the dealer of such debt instrument or other reliable foreign financial institutions shall be the assessor of the fair value. Such assessment shall be documented with referable data source.

In this regard, financial institutions should use the price from the same source in order to ensure consistency of the price. Unless such data source may not have price for any particular instruments, financial institutions may use the price from other sources, however, financial institutions shall be able to specify the reference source when requested by the Bank of Thailand.

2.2 Fair value assessment for investment in equity instrument

2.2.1 **Investment in equity instrument sold in Thailand,** financial institutions shall comply as follows:

(1) Equity instrument in an active market

Financial institutions shall use the latest average bid price from domestic markets supervised by governmental organizations where such instrument is traded such as the Stock Exchange of Thailand and the Market for Alternative Investment (MAI) as the fair value of such equity instrument.

(2) Equity instrument in an inactive market or the available market is not qualified to be an active market

Financial institutions shall follow the accounting standard by considering such instrument as general investment and presenting it on the balance sheet with cost value. The impairment of the investment shall also be taken into account.

2.2.2 **Investment in equity instrument sold abroad**, financial institutions shall comply as follows:

(1) Equity instrument in an active market

Financial institutions shall use the price published in foreign markets supervised by government organizations as a fair value of such equity instruments

(2) <u>Equity instrument in an inactive market or the available market is not qualified to be an active market</u>

Financial institutions shall follow the accounting standard by considering such an instrument as general investment and presenting it on the balance sheet with cost value. The impairment of the investment shall also be taken into account.

In this regard, financial institutions should use the price from the same source in order to ensure consistency of the price. Unless such data source does not have price for any particular instruments, financial institutions may use the price from other sources, however, financial institutions shall be able to specify the reference source when requested by the Bank of Thailand.

3. In a case of debt restructuring where financial institutions accept equity instrument as loan repayment, resulted from debt-equity conversion, and such equity instrument has some limitations in holding and selling, financial institutions must determine a clear policy in obtaining of such instrument since from the received date whether to hold it as a general investment or an investment in subsidiary or associated company and shall record such transaction in accordance with the accounting standard.

Section 3

Purchasing or Accepting Transfer of Loan

To ensure that accounting guidelines regarding the purchasing and accepting transfer of loan of the financial institutions are correct and under the same standard as well as in line with the Accounting Practices concerning the transferring and accepting transfer of financial assets, the Bank of Thailand hereby prescribes an accounting and supervision guidelines for financial institutions to comply with as follows:

1. Accounting for the loan purchased or accepted transfer

Financial institutions shall record the loan purchased or accepted transfer in accordance with the Accounting Practices Re: Transferring and Accepting transfer of Financial Assets dated 30 August 2000 issued by the Federation of Accounting Professions. In addition, financial institutions shall conform to other relevant accounting standards such as accounting for problem debt restructuring and impairment of assets, etc.

2. Classification of the loan purchased or accepted transfer

The guidelines in classifying the loan purchased or accepted transfer in the financial statement, after recording as investment in receivables, are as follows:

2.1 In the case where financial institutions do not make any new agreement with the loan purchased or accepted transfer and no additional credit is extended, such item shall be classified as investment in receivables and subjected to the same accounting practices as those governing investments in debt and equity instruments.

2.2 In the case where financial institutions extend additional credit to such debtor, whether under the remaining credit line or make a new agreement, financial institutions shall consider as follows:

2.2.1 If the loan purchased or accepted transfer can be clearly distinguished from the part of additional credit extended, financial institutions shall comply as follows:

(1) The initial loan purchased or accepted transfer under the original agreement to which no agreement or change in condition is made in addition to the original agreement, shall be classified as investment in receivables and subject to the same accounting practices as those governing investments in debt and equity instruments.

(2) The additional credit under either a new agreement or debt restructuring agreement in addition to the original agreement shall be classified as loan which is the same as general loan.

2.2.2 If the loan purchased or accepted transfer cannot be clearly distinguished from the part of additional credit extended since the credit extension is a revolving credit such as an overdraft loan, credit card loan or other similar debtors, the whole amount shall be classified as loan.

2.3 In the case where financial institutions modify or agree with new payment conditions, by executing an addendum to the original one or canceling the original agreement or entering into a debt restructuring agreement, the whole amount of debt shall be classified as loan.

2.4 In the case where financial institutions extend additional credit by canceling the original agreement and making a new loan agreement, this item shall entirely be classified as loan.

2.5 The reclassification from an investment in receivables to a loan is considered the reclassification of financial assets. Therefore, as at the date of transferring from an investment in receivables to a loan, financial institutions shall use a fair value as at the reclassification date and immediately recognize the difference between book value and fair value as at such date as profit or loss in the income statement.

2.6 In the case where the loan purchased or accepted transfer has been classified as a loan and subsequently could not comply with the newly agreed conditions, such debtor shall continue to be classified as a loan but shall never be reclassified as an investment.

3. The assessment of fair value of investment in receivables

The assessment of fair value of investment in receivables shall be as follows:

3.1. The assessment of fair value of investment in receivables, which is reclassified to loan, shall comply with the following guidelines:

3.1.1 Financial institutions shall comply with the Accounting Practices regarding Transferring and Accepting Transfer of Financial Assets dated 30 August 2000 of the Federation of Accounting Professions by using a present value of future cash flow method discounted by a rate proper to relevant risk of each debtor. The discount rate may be calculated from MLR plus risk premium whereby the calculation of risk premium shall be as follows:

(1) Calculation method shall be made in writing so that the Bank of Thailand's examiner can examine it later on.

(2) The calculation must be reasonable and referable; for example, referring to the debtor's rating, and the MLR plus a risk premium must be distinctively higher than an interest rate offered to normal debtors in general.

(3) The same rate of risk premium may be applied to debtors who possess the same characteristics and risks.

3.1.2 In the case where the future cash flow can be estimated, but an appropriate discount rate cannot be derived, the discount rate must be the rate that make a present value of the expected future cash flow equal to a book value of investments in receivables.

3.2 The assessment of fair value to measure the value of investment in receivables shall comply with the following guidelines:

3.2.1 In the case where investment in receivables of which the future cash flow as well as appropriate discount rate can be estimated, financial institutions shall follow Clause 3.1.1.

3.2.2 In the case where investment in receivables of which the future cash flow cannot be estimated, or can be estimated but an appropriate discount rate cannot be measured, the following guideline shall be applied.

(1) In the case where there is collateral and financial institutions have legal enforcement over the debtor's collateral for debt repayment, financial institutions may use the debtor's collateral value as a fair value of investment in receivables. Regarding an assessment of collateral value, financial institutions shall follow the guideline on classification and provision of financial institutions and guideline on valuation of collateral and foreclosed asset received as debt payment determined by the Bank of Thailand.

In this regard, the value of collateral used as a fair value of investments in receivables shall not be higher than the remaining principal under loan contract of the loan purchased or accepted transfer.

(2) In the case where there is no collateral, it shall be considered that a fair value of investment in receivables is equal to zero.

4. Impairment of investment in receivables

After purchasing or accepting transfer of investment in receivables, if debtor has an overdue interest payment over 3 months from the contractual due date, financial institutions shall determine the impairment of investment in receivables by using fair value assessment in considering impairment as prescribed in Clause 3.2

5. Profit recognition on reclassifying investment in receivables

Where financial institutions make profit from reclassifying investment in receivables to a loan, financial institutions shall consider the certainty of future cash inflow when recording such profit as income.

6. Supervision Guidelines for the loan purchased or accepted transfer

6.1 The debtor classified as a loan shall be classified and make provision in the same manner as a general loan, while the debtor categorized as an investment shall be classified and make provision in the same manner as investment in debt and equity instruments in accordance with the criteria specified by the Bank of Thailand.

6.2 The loan purchased or accepted transfer, both classified as investment and loan, shall be supervised in the same manner as a normal loan in which it shall be included in calculating major debtors in accordance with the Notification Re: Ratio of credit, investment, liability or other credit-like transactions to the capital that financial institutions are allow to granted to any particular person or project.

In addition, the loan purchased or accepted transfer shall strictly conform to the relevant law on lending such as the prohibition of granting a loan to the director or high level executive as prescribed in Section 48 of the Financial Institutions Businesses Act B.E. 2551, etc.

6.3 The recording of interest receivable as income of the loan purchased or accepted transfer both classifying as investment and loan, financial institutions shall comply with the accounting criteria regarding recognition of interest receivable as income in the same manner as a general loan.

Section 4

Conversion of Foreign Currencies to Thai Baht

To convert transactions in foreign currencies to Thai Baht, financial institutions shall convert according to type of transactions as follows:

1. Spot position transaction

All foreign currency transactions under spot position, including the conversion of the financial statement of oversea business for consolidating into financial institutions' financial statement and preparation of all reports relating to foreign currency conversion (only FI information on spot position) submitting to the Bank of Thailand on the last day of every reporting month, financial institutions shall convert such transactions by using the average buying rate – Telex Transfer and average selling rate posted on the website of the Bank of Thailand (www.bot.or.th) as at the balance sheet date or on the last day of the reporting month.

In the case where there is no information available for any particular currency, financial institutions shall apply the cross rate as at the balance sheet date or on the last day of the reporting month, which is an exchange rate between other currencies equivalent to the USD which the Data Management Department of the Bank of Thailand has distributed to the financial institutions via e-mail, then convert it to THB with the exchange rate of USD which is an average of average buying rate – Telex Transfer and average selling rate posted on the Bank of Thailand's website.

2. Forward position transaction

For transactions under forward position, financial institutions shall use the exchange rate on the forward contract for the remaining period of such position/contract for the evaluation of the forward position at the closing of the accounting at the end of every month. Financial institutions may choose whether or not to discount the forward position to present value.

Financial institutions which are not ready to comply with the aforementioned guideline on calculating forward position, such financial institutions may use the interest rate on the forward contract of the premium/discount amortization method and the cross currency swap for forward position on the banking book in accordance with the accounting standard or accounting practice set out by the Federation of Accounting Professions. In the mean time, financial institutions which are granted with such relaxation shall prepare for the new accounting method which may be enforced in the future as well.

3. Derivative transactions

Derivative transactions relating to foreign currencies other than mentioned in Clause 2, financial institutions shall assess fair value of such derivatives by using any of the following methods:

3.1 Using the price of the same type of derivative, characteristics, currency and contractual period as the remaining period of the derivative published by reliable sources such as Bloomberg, Reuters, Telerate or Euroclear; or

3.2 Using the price offered by the counterparty for the same type of derivative, characteristics, currency and contractual period as the remaining period of the derivative; or

3.3 Using the price calculated from a reliable model. Such model shall be calculated in accordance with the theory and is verified by independent experts. In addition, the parameters used in the model shall be in line with the information available in the active market advertised to the public. In the case where financial institutions assess fair value using the valuation technique set out in the Notification of the Bank of Thailand Re: Guideline on Risk Management for Derivatives. Such technique shall be approved by the independent expert. Such independent expert may be a person, internal or external work unit which is independent from the department developing such technique or model or the user of the technique and model. In case of the foreign bank's branch, if the used model is the same model used by the parent bank or branches around the world which has already been verified by the Financial Supervision Organization in the country in which the parent bank locates, the Bank of Thailand allows such model to be used without further verification.

4. Profit or loss from conversion of foreign currency as prescribed in Clause 1-3 shall be complied in accordance with the Thai Accounting Standard or Thai Accounting Practice or IFRS or acceptable foreign accounting standard.

5. Conversion of foreign currency for maintaining liquidity at the day end, not the month end shall be complied with the Notification of the Bank of Thailand Re: Maintaining Liquid Assets.

Section 5

Recognition of Loan Interest Income or Hire-Purchase Installment

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1. Recording as income

1.1 In preparing books of account and financial statement, financial institutions shall apply accrual basis for every month end.

1.2 In case the debtor has overdue interest or installment less than 3 months, financial institutions may recognize the repayment amount as income.

1.3 Partial interest received shall be paid to the accrued interest income which has already recognized as income before paying to the accrued interest income which has not been recorded as income.

1.4 Financial institutions may recognize income based on accrual basis for debtor who has been suspended from income recognition as stated in Clause 3 only when such debtor has repaid the principal and interest which have been already recognized and have not yet recorded as income or the entire amount of unpaid installment.

2. Accounting for hire-purchase income

Financial institutions shall record hire-purchase income in accordance with the calculation stipulated on the relevant account standards.

3. Suspension of income recognition

The suspension shall be applied to the following cases:

3.1 Borrower or debtor, as a result of a guarantee or acceptance, giving aval or negotiation of bills, is unable to pay interest for more than 3 consecutive months, starting from the contractual maturity date.

3.2 Overdraft debtor who does not have credit line or the credit line has been canceled or the debt amount exceeds credit line and is unable to pay interest for more than 3 consecutive months starting from the date that debtor is unable to pay interest or only partial of interest has been paid but the overdue interest is still exceeding 3 months.

3.3 Hire-purchase debtor who is unable to make an installment for more than 3 consecutive months starting from the due date on the contract.

3.4 Borrower or debtor, as a result of a guarantee or acceptance, giving aval or negotiation of bills, or overdraft debtor who has overdue interest payment or hire-purchase debtor who has overdue installment in a period not exceed 3 months starting from the contractual maturity date, however, such debtor is classified as loss, doubtful of loss or doubtful in accordance with the Notification of the Bank of Thailand Re: Guideline on Classification and Provision of Financial Institutions.

3.5 Financial institutions shall reverse the transaction of interest income from loan, overdraft, installment of hire-purchase of debtor in which financial institutions has already recorded as income under Clauses 1 and 2 if such debtor has overdue payment or such debtor falls under any conditions stated in Clauses 3.1 - 3.4.

3.6 Example of timeframe calculation for recognizing accrued interest receivable as income and reversing such transaction is illustrated on Attachment 4.

Section 6

Accounting for Bill Trading

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1. **Definition**

In this section, “bill” means promissory note and bill of exchange, however, excluding promissory note issued by financial institutions under regulation prescribed under Clause 1.1 of Section 2: Accounting for Investment

2. **Accounting for bill trading**

2.1 In purchasing, discounting or rediscounting bill, financial institutions shall record such bill as a loan to the bill’s holder who sells the bill, unless the Bank of Thailand stipulates otherwise.

2.2 In selling, discounting or rediscounting bill, which financial institutions have purchased, discounted or rediscounted, financial institutions shall record in accordance with the relevant accounting standards. In the case where financial institutions sell, discount, or rediscount bill with recourse, financial institutions shall disclose the outstanding balance of such sales, discount or rediscount as off-balance sheet item at the end of the balance sheet. In addition, financial institutions shall take into account the obligation which may incur from such transaction and shall comply with the Accounting Standard No. 53 Re: Provision, Contingent Liabilities and Contingent Assets and subsequent amendment thereof.

Section 7

Recording of Bad debt Recovery

As the Bank of Thailand has required financial institutions to write-off debtor in accordance with the Notification Re: Classification and Provision of Financial Institutions which later if financial institutions are able to restructure such written-off debtors, financial institutions shall follow the guideline on recovery of bad debt transaction as follows:

According to the Accounting Framework on recognizing income in the income statement, a company shall recognize income on the income statement when the future economic benefit has increased due to an increase in asset or decrease in liability and when the company is able to reliably measure future economic benefit. From such prescriptions, financial institutions may recognize recovered bad debt as income only on the transaction which are certain to incur and is reliably measured. Otherwise, financial institutions shall record such recovered bad debt as income when the actual repayment has been made.

The Bank of Thailand deems that financial institutions shall record the bad debt which has later been restructured as income only after the repayment has been made in order to comply with the conservatism principle and to maintain same standard. However, in the case where financial institutions' auditors deem that the restructured bad debt has fallen under the Accounting Framework's guideline which allows financial institutions to recognize such debt as income, financial institutions may immediately record such recovered bad debt as income.

Section 8

Dividend Policy

Since financial institutions have recorded profit from asset revaluation, reclassification of financial assets and other transactions as an unrealized gain as a result of changing in interest rate, exchange rate and fair value or recognizing higher profit or lower loss than normal, such profit will be included in calculation of net profit (loss) for the period and accumulated profit (loss) which will later be used as a base on considering of dividend payment. Therefore, in order to support loss that may incur in the future as a result of such risks, the Bank of Thailand requires financial institutions to comply with the following prescriptions regarding dividend payment.

1. Financial institutions should not pay dividend from the transactions that resulting in unrealized gain or no real cash inflow, such as profit from mark to market and profit from reclassification of financial assets, etc.

2. Financial institutions should not pay dividend from the profit arising from selling of asset which is not actually been sold that lead to a higher profit or lower loss than it should be, such as profit from sales of foreclosed assets under condition that financial institutions may repurchase or obtain right to purchase such assets in the future, etc.

6. Transitory Provision

Since some of the accounting guidelines on certain topics are varied among financial institutions, therefore, any transaction incurs prior to the enforcement of this Notification and financial institutions have conformed to the guideline enforced at that time, financial institutions may comply with the original guideline for such transaction until the contract has expired.

7. Effective Date

This Notification shall come into force from the date after the announcement on Government Gazette onward.

Announced on 3 August 2008

(Mrs. Tarisa Watanagase)
Governor
The Bank of Thailand

Attachment 1

Repealed Notifications and Circulars of Bank of Thailand

No.	Issued Date	Type of Document	Document No.	Subject
1	22 Nov 1994	BOT Notification		Accounting Guidelines for Finance Companies on Accepting the Transfer with Return of Claims arising from Dispositions of Goods
2	7 Dec 1994	Circulated Letter	NgorPhor. (Wor) 4327/2537	The Notification of the Bank of Thailand regarding Accepting the Transfer with Return of Claims arising from Dispositions of Goods
3	22 Dec 1995	BOT Notification		Stipulation on Accounting for Finance Companies
4	22 Dec 1995	BOT Notification		Juristic Acts Procedures for Finance Companies
5	25 Dec 1995	Circulated Letter	NgorPhor. (Wor) 4966/2538	Submission the Notification of the Bank of Thailand
6	9 Apr 1998	Circulated Letter	ThorPorTor. Ngor.(Wor) 1351/2541	Clarification Procedures on Foreign Currencies Debt Conversion
7	24 Dec 1998	BOT Notification		Stipulation on Accounting for Finance Companies and Credit Foncier Companies
8	28 Dec 1998	Circulated Letter	Ngor.(Wor) 2530/2541	Circulation of the Notification of the Bank of Thailand Re: Stipulation on Accounting for Finance Companies and Credit Foncier Companies
9	24 Dec 1998	BOT Notification		Regulations of Commercial Banks on Accounting for Recognizing Interest Receivable as Income
10	28 Dec 1998	Circulated Letter	Ngor.(Wor) 2529/2541	Circulation of the Notification of the Bank of Thailand Re: Regulations of Commercial Banks for Recognizing Interest Receivable as Income
11	23 Nov 1999	Circulated Letter	SorNorSor.(01)Wor. 49/2542	Accounting Procedures Regarding Valuation of Investment in Government Bonds
12	15 Nov 2000	Circulated Letter	ThorPorTor. SorNorSor.(21)Wor. 3100/2543	Accounting for Recovery Bad Debt

No.	Issued Date	Type of Document	Document No.	Subject
13	15 Nov 2000	Circulated Letter	ThorPorTor. SorNorSor.(21)Wor. 3101/2543	Accounting for Recovery Bad Debt
14	12 Jan 2001	Circulated Letter	ThorPorTor. SorNorSor.(21)Wor. 57/2544	Clarification on Accounting for Recovery Bad Debt
15	8 Nov 2001	Circulated Letter	ThorPorTor. SorNorSor.(21)Wor. 2508/2544	Accounting for Investments
16	3 Dec 2002	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 2775/2545	Accounting for Purchasing or Accepting Transfer of Loan and Supervision Guidelines
17	13 Dec 2002	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 2837/2545	Accounting for Investments
18	17 Jun 2002	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 1421/2546	Accounting for Investments
19	28 Jul 2003	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 1729/2546	Dividend Policy of Commercial Banks
20	28 Jul 2003	Circulated letter	ThorPorTor. SorNorSor.(31)Wor. 1730/2546	Dividend Policy of Finance Companies, Securities Companies, and Credit Foncier Companies
21	21 Nov 2003	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 2506/2546	Clarification on Accounting for Purchasing or Accepting Transfer of Loan
22	4 Feb 2004	Circulated Letter	ThorPorTor. SorNorSor.(31)Wor. 166/2547	Accounting for the Sale of Foreclosed Assets
23	22 Nov 2004	Circulated Letter	ThorPorTor. SorNorSor.(21)Wor. 1974/2547	Guidelines for Translation and Recognition of Gain and Loss on Foreign Exchange Positions and Fair value Assessment of Financial Derivatives
24	30 Jan 2007	Circulated Letter	ThorPorTor. ForNorSor.(21)Wor. 153/2550	Clarification on Sale of Foreclosed Assets to Bangkok Commercial Asset Management Company (BAM)
25	16 Apr 2008	Circulated Letter	ThorPorTor. ForNorSor.(21)Wor. 679/2551	Prescription of Foreign Exchange Rate for the Conversion of Foreign Currencies to Thai Baht

Attachment 2

The followings terms shall be defined as prescribed in Section 4 of the Financial Institutions Businesses Act B.E. 2551

“Person with management authority” refers to any of the following:

(1) Manager, deputy manager, assistant manager, executive director of financial institution or company, whatever the case may be, or an individual of identical position under other titles;

(2) Person contracted and empowered by financial institution or company to fully or partly manage the company; or

(3) Person with power or control over the manager or executive director of a financial institution or company, or the right to set management policies of such bodies.

“Related party” refers to a person related to another person in the following manners:

(1) a spouse,

(2) a child or adopted child who is considered a minor,

(3) a company in which such person/persons stated in (1) or (2) has/have administrative power,

(4) a company in which such person/persons stated in (1) or (2) has/have control of a majority of votes at shareholders’ meeting,

(5) a company in which such person/persons stated in (1) or (2) has/have the right to appoint or remove half of the executive directors,

(6) a subsidiary of a company as stated in (3), (4), or (5),

(7) an affiliated company as stated in (3), (4), or (5),

(8) a principal or representative, or

(9) any other person as stipulated by the Bank of Thailand.

Where any individual directly or indirectly holds at least 20% of the total number of issued shares of a company, it is assumed that such company is a related party to such individual, unless it is proven otherwise.

“Major shareholder” refers to a party holding at least 5% of the total number of shares of a financial institution. In this case, shares held by related parties are included.

“Business with beneficial interest” refers to a company in which a financial institution, executive director of a financial institution, person with management authority of a financial institution, or related parties to these persons, holds/hold an aggregate number of shares exceeding 10% of the total number of issued shares of such company.

Attachment 3

Examples of Accounting Procedures for Sale of Foreclosed Assets

1. The Sale of Foreclosed Assets to General Public

Case 1 Cash payment has been received amounting to not less than 20% of the sale price, and the buyer is able to repay the debt

Sale of a foreclosed asset (building) with book value of Baht 10 million at a price of Baht 12 million for which the buyer makes a cash payment of Baht 4 million and borrows Baht 8 million which will be repaid within two months in equal installments of Baht 4 million per month at 12% interest per annum.

Date of Transaction

Dr Cash/ Bank deposit	4,000,000	
Loan	8,000,000	
Cr Foreclosed properties (building)		10,000,000
Profits from sale of foreclosed properties		2,000,000

End of 1st Month

Dr Cash/ Bank deposit	4,080,000	
Cr Loan		4,000,000
Interest revenue (8,000,000 * 12% * 1/12)		80,000

End of 2nd Month

Dr Cash/ Bank deposit	4,040,000	
Cr Loan		4,000,000
Interest revenue (4,000,000 * 12% * 1/12)		40,000

Case 2 Buyer's payments not exceeding 20% of the sale

Sale of a foreclosed property (building) with book value of Baht 10 million at a price of Baht 12 million, in which the buyer makes a cash payment of Baht 2 million , and borrows Baht 10 million which will be repaid within two months in equal installments of Baht 5 million per month at 12% interest per annum.

- In this case, income (Baht 2 million) recognition of the total sales amount may be carried out when the buyer has paid not less than 20% of the sales price, which is 12,000,000*20% = 2,400,000.
- Therefore, in this case, on the trading day, financial institutions may recognize profit, according to the proportion of payment to selling price, as (2,000,000/12,000,000) * 2,000,000 = 333,333.

Date of Transaction

Dr Cash/ Bank deposit	2,000,000	
Loan	10,000,000	
Cr Foreclosed properties (building)		10,000,000
Deferred profits from sale of foreclosed properties		1,666,667
Profits from sale of foreclosed properties		333,333
(Portion of cash payment) [(2,000,000/12,000,000)*2,000,000]		

End of 1st Month

The buyer has paid another Baht 5 million at the end of first month, which make the cash payment not less than 20% of the sale price (Baht 2.4 million), therefore the total amount of profit can be recognized

Dr Cash/ Bank deposit	5,100,000	
Deferred profits from sale of foreclosed properties	1,666,667	
Cr Loan		5,000,000
Profits from sale of foreclosed properties		1,666,667
Interest revenue (10,000,000 * 12% * 1/12)		100,000

End of 2nd Month

Dr Cash/ Bank deposit	5,050,000	
Cr Loan		5,000,000
Interest revenue (5,000,000 * 12% * 1/12)		50,000

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2 The Sales to Business with Beneficial Interest, Director, Manager, Deputy manager, Assistance Manager, or Person under Other Titles with Equivalent Authority, Person with Managing Authority of Financial Institutions, Major shareholder or Related Parties to Aforementioned Persons

Case 1 Have No Loan from the Financial Institution and Companies in the Financial Group of Such Financial Institution

1. Total Payment is received in Cash
Sale of a foreclosed asset (building) with book value of Baht 10 million at a price of Baht 12 million.

Date of Transaction

Dr	Cash/ Bank deposit	12,000,000	
Cr	Foreclosed properties (building)		10,000,000
	Profits from sale of foreclosed properties		2,000,000

2. Payments are received in Installments
Sale of a foreclosed asset (building) with book value of Baht 10 million at a price of Baht 12 million, to be paid over two months in installments of Baht 6 million at 10% interest per annum.

Date of Transaction

Dr	Accounts receivable	12,000,000	
Cr	Foreclosed properties (building)		10,000,000
	Deferred profits from sale of foreclosed properties		2,000,000

End of 1st Month

Dr	Cash/ Bank deposit	6,100,000	
Cr	Accounts receivable		6,000,000
	Interest revenue (12,000,000 * 10% * 1/12)		100,000

End of 2nd Month

Dr	Cash/ Bank deposit	6,050,000	
	Deferred profits from sale of foreclosed properties	2,000,000	
Cr	Accounts receivable		6,000,000
	Profits from sale of foreclosed properties		2,000,000
	Interest revenue (6,000,000 * 10% * 1/12)		50,000

<u>Case 2 Have Loan from the Financial Institution and Companies in the Financial Group of Such Financial Institution</u>

1. <u>Loan for Payment of Total Asset Price</u>
Sale of a foreclosed asset (building) with book value of Baht 10 million at a price of Baht 12 million, in which the buyer borrows from the financial institution to pay for the foreclosed asset. The buyer/debtor shall pay for the asset over two months in monthly installment of Baht 6 million at 10% interest per annum.

<u>Date of Transaction</u>

Dr Loan	12,000,000	
Cr Cash/ Bank deposit		12,000,000
Dr Cash/ Bank deposit	12,000,000	
Cr Foreclosed properties (building)		10,000,000
Deferred profits from sale of foreclosed properties		2,000,000

<u>End of 1st Month</u>

Dr Cash/ Bank deposit	6,100,000	
Cr Loan	6,000,000	
Interest revenue (12,000,000 * 10% * 1/12)		100,000

<u>End of 2nd Month</u>

Dr Cash/ Bank deposit	6,050,000	
Deferred profits from sale of foreclosed properties	2,000,000	
Cr Loan	6,000,000	
Profits from sale of foreclosed properties		2,000,000
Interest revenue (6,000,000 * 10% * 1/12)		50,000

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2. <u>Loan for Partial Payment of the Asset</u>
Sale of a foreclosed asset (building) with book value of Baht 10 million at a price of Baht 12 million, in which the buyer borrows Baht 8 million from the financial institution to pay for the foreclosed asset. The buyer/debtor shall repay for the loan over two months in monthly installments of Baht 4 million at 12% interest per annum, while paying the remaining balance of the asset price in cash.

Date of Transaction

Dr Cash/ Bank deposit	4,000,000	
Loan	8,000,000	
Cr Foreclosed properties (building)		10,000,000
Deferred profits from sale of foreclosed properties		1,333,333
Profits from sale of foreclosed properties		666,667
(Portion of cash payment) (2,000,000*4,000,000/12,000,000)		

End of 1st Month

Dr Cash/ Bank deposit	4,080,000	
Cr Loan	4,000,000	
Interest revenue (8,000,000 * 12% * 1/12)		80,000

End of 2nd Month

Dr Cash/ Bank deposit	4,040,000	
Accrued profits from sale of foreclosed properties	1,333,333	
Cr Loan		4,000,000
Profits from sale of foreclosed properties		1,333,333
Interest revenue (4,000,000 * 12% * 1/12)		40,000

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3. Sale of Foreclosed Assets Unqualified as the Sale

Sale of a foreclosed asset (building) with book value of Baht 5 million at a price of Baht 6 million, where the seller still retains control over the asset sold.

Date of Transaction

Dr Cash/ Bank deposit	6,000,000	
Cr Deposit for foreclosed properties		6,000,000

When the seller no longer has control over the asset, income recognition of profits may be carried out as usual.

Dr Deposit for foreclosed asset	6,000,000	
Cr Foreclosed properties (building)		5,000,000
Profits from sale of foreclosed properties		1,000,000

Attachment 4

Example of timeframe calculation for recognizing accrued interest receivable as income and reversing such transaction

1. <u>Case of Borrower with monthly interest payment schedule</u>

Debtor signs contract on 1 January 2007. The first interest payment is scheduled to be paid on 31 January 2007. If the debtor does not make interest payment as scheduled, such date shall be consider the starting date of the overdue payment. Financial institutions may continue to record accrued interest receivable as income for the next 3 month until 30 April 2007. Then, starting from 1 May 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

2. <u>Case of Borrower with 6-month interest payment schedule</u>

Debtor signs contract on 1 January 2007. The first interest payment is scheduled to be paid on 30 June 2007. If the debtor does not make interest payment as scheduled, such date shall be considered the starting date of the overdue payment. Financial institutions may continue to record accrued interest receivable as income for the next 3 month until 30 September 2007 Then, starting from 1 October 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

3. <u>Case of Borrower with monthly interest payment schedule who has overdue payment less than 3 months and has made partial payment</u>

Debtor signs contract on 1 January 2007. The first interest payment is scheduled to be paid on 31 January 2007. If the debtor does not pay interest on such date and also misses the next two payments scheduled for 28 February 2007 and 31 March 2007, however, debtor makes a payment on 30 April 2007 in an amount of one month interest and on 31 May 2007, debtor misses the payment again, financial institutions may continue to record accrued interest receivable as income until 31 May 2007. Then, starting from 1 June 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

4. <u>Case of the overdraft debtor who does not have credit line or the credit line has been cancelled or the debt amount is more than credit line, with no movement on the account</u>

On 31 January 2007 which is the date scheduled for the interest calculation after there is no movement on the account, financial institutions may continue to record accrued interest receivable as income until 30 April 2007. Then, starting from 1 May 2007 onwards, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

5. <u>Case of the overdraft debtor who does not have credit line or the credit line has been cancelled or the debt amount is more than credit line, with partial payment has been made</u>

On 31 January 2007, debtor has started to make partial interest payment, financial institutions may record such accrued interest receivable as income in an amount not exceeding the interest amount that debtor shall pay in four month. Whenever the accrued interest receivable exceeds the recorded amount, financial institutions shall stop recognizing such accrued interest receivable as income and shall reverse the previous transactions from the accounting as well.

Questions & Answers – Addendum to the Notification of Bank of Thailand Regarding Guidelines on Accounting of Financial Institutions

No.	Questions	Answers
	Section 1: Accounting for Sales of Foreclosed Assets	
1	In the case where foreclosed assets are sold to general public, for transaction with total sale exceeding Baht 10 million at which conditions for profit recognition have been set forth, how should transaction with total sale exceeding Baht 10 million be considered? Should it be considered as piece by piece or as per contract?	The intention of the conditions set for revenue recognition of sales of foreclosed assets is to be prudent. Cautions must be exercised that the buyer will not revoke the purchase and he/she has the ability to make payment that directly affects the certainty in recognizing profits of financial institutions. Therefore, when considering the transaction with total sale exceeding Baht 10 million, it should be considered as per contract pertaining to each individual customer, whereas an instance of such purchase can only be one piece or several pieces of foreclosed assets.
2	In setting price for sales of assets of financial institution to asset management company of which such financial institution holds more than 50% of total amount of shares sold of such asset management company, whether directly or indirectly, as well as in considering the principles of writing off assets from transferor's financial statement, should the existing guidelines, stated in the circular No. ThorPorTor. SorNorSor. (01) Wor. 3258/2543 regarding the principles of practices for asset management companies dated 27 November 2000, be applied?	The existing guidelines should still be in effect, that is: (1) In selling assets to asset management company, financial institution must set prices for the transferring using one of the followings criteria: (1.1) The fair value price as defined in accounting standards (1.2) The book value price which is the price after setting aside the provisions in accordance with requirements of the Bank of Thailand (1.3) In the case of transferring of assets to asset management company of which the Financial Institutions Development Fund (FIDF) holds more than 50% of the shares sold of such asset management company, the price must be approved by the FIDF Board of Directors. (2) The transfer of assets of financial institution to asset management company shall be considered as outright sale, in which financial institution as the transferor can derecognize such assets from its financial statement only when the transfer of asset is completed in

No.	Questions	Answers
		accordance with accounting practice regarding to transferring and receiving of the financial assets dated 30 August 2000. In the case where the transfer of the assets does not comply with the aforementioned accounting practice regarding to transferring and receiving financial assets, financial institution must record such mentioned transfer as loan by having the transferred assets as collateral. The amount of mentioned loan must not exceed the collateralized assets' fair value or book value whichever the case may be.
	Section 2: Accounting for Investments	
3	The consideration of the nature of active market.	The definition of the active market as defined in accounting standards No. 40 Re: accounting for investment in debt and equity instruments shall be used, which is the market possessing all the following characteristics: (1) Transactions made in the market must have the same characteristics, (2) There must be willing buyers and sellers throughout the operating period and; (3) Prices must be publicly available. In this regards, markets regulated by government organizations can be considered as active markets such as Stock Exchange of Thailand (SET), Market for Alternative Investment (MAI) and Thai Bond Market Association (Thai BMA).
4	Questions relating to fair value appraisal are as follows; 4.1 In the case where there is no active market or the market is not qualified to be considered as active market for debt instruments, in which the notification prescribes that reliable financial institution can be used to appraise fair value. Can financial institution holding such instruments appraise the fair value by itself?	4.1 Financial institution holding the instruments cannot appraise the fair value of such instruments by itself. The appraisal must be done only by third party financial institutions or parties not relating to the financial institution. In the case when appraising the fair value of the instruments that are not traded in the active market, financial

No.	Questions	Answers
		institutions shall use the fair value appraisal techniques as stated in the Attachment 2 of the notification of the Bank of Thailand No. SorNorSor. 14/2551 regarding the Risk Management Guidelines for Derivatives Transactions can be used.
	4.2 For some debt instruments that rarely move, how should their fair values be appraised?	4.2 In the case of debt instruments listed in Thai BMA, they may be considered to have active market and shall use the rate of return published in the website for every 15 days period. However, in case of other debt instruments not listed in Thai BMA, they are considered as debt instruments in inactive market or such market does not qualify to be an active market. Then, the fair value appraisal method stated in the Attachment 2 of the notification of the Bank of Thailand No. SorNorSor. 14/2551 regarding Guideline on Risk Management for Derivatives Transactions shall be used.
	4.3 For debt instruments in inactive market with maturity less than the shortest maturity of the government bonds, how to appraise their fair value?	4.3 Financial institution shall use Government Bond yield curve to connect with T-Bill yield curve under the subject of Yield – Yield curve, which contains yield rate of return of instruments from 0 to about 20 years.
	4.4 For investments traded in more than one active markets, which market price should be used?	4.4 For investments traded in more than one active markets, financial institution must use price from primary market in appraising investment value. The primary market is defined as the market with the highest sale distribution of instruments or assets when comparing with other markets in normal condition. Such portion must be the amount of instruments trading in the market comparing with the amount of issued instruments.
	4.5 For debts instruments in inactive market or such market does not qualify as active market, can financial institution uses others fair value	4.5 Financial institution must use fair value appraisal method as prescribed in related notifications to the mentioned subjects.

No.	Questions	Answers
	appraisal methods other than regulated? 4.6 For debt instruments in inactive market, can financial institution uses bid or offer price in appraising fair value of the investment in accordance with Accounting Standard No. 40?	4.6 For debt instruments such as Treasury bills, Government bonds, BOT bonds, FIDF bonds and State Enterprise bonds, financial institution shall use only the latest rate of return or the latest average bid rate from Thai BMA web site. For private companies' debt instruments, the latest rate of return or the latest average bid price from other active market that regulated by government organizations where such instruments currently traded shall be used. All of which are purely for the sake of standard and consistency in accounting recording of financial institution.
5	The holding of Certificate of Deposits (CD) of other financial institutions, how should financial institution classify such holding? Can it be classified as investment?	In the case where financial institutions hold other financial institutions' Certificate of Deposits, it shall be classified as Interbank and Money Market transactions, not an investment one.
6	For investments resulting from debt-to-equity conversion, can financial institution considers the classification in accordance with Accounting Standard, without considering whether such investments have any limitations in holding and selling, in which financial institution shall classify it as general investment or investment in affiliates or subsidiaries. In addition, can financial institution classify such investment as available for sales?	Financial institution must classify its investments resulting from debt-to-equity conversion in accordance with Clause 3 under Section 2 regarding accounting for investments, so that the classification is correct and clear. For the investments with limitations in holding and selling are defined as when financial institution is prohibited to sell such investments for a certain period or such investments can be sold firstly to the issuer of such instruments or such investments have some other limitations in holding and selling. Those investments shall be classified as general investment or investments in affiliates or subsidiaries whichever the case may be and cannot be classified as available for sales.
7	For securities listed in the SET that are under trading suspension, how can financial institution appraises their fair value?	The financial institution shall use the same practice undertaken by the SET as the followings. Listed securities being suspended continuously for more than 90 days or qualified for being de-listed from the SET should be considered not to have any market value. Investors shall not

No.	Questions	Answers
		classify the mentioned securities as marketable securities and must take the following practices: Transfer such securities to be other securities (general investments) and appraise securities using cost method by using the price from the latest closing date before trading suspension as the new cost of such securities adjusting with permanently devalue of securities in the Income Statement (considering the impairment of securities).
8	Does the definition of debt instruments also extend to Convertible Bonds?	The definition of debt instruments includes Convertible Bonds but does not include the value of Embedded Derivative part.
9	For bill of exchange issued by stating that “this bill of exchange is a security….” that complies with guidelines set forth by Securities and Exchange Commission (SEC), both through Public Offering and Limited Offering, should they also be classified as investment ?	Whether bill of exchange issued by stating that “this bill of exchange is a security….” in accordance with the SEC’s notification be classified as investments, it depends mainly on the objectives of issuing that bill of exchange. The bill of exchange that can be classified as investment must be a bill of exchange issued with an objective to raise funds from general public and must possess similar characteristic to debenture under the SEC’s guidelines. The notification of SEC stating that “this bill of exchange is a security….” is mainly to set the nature of debt instruments that requires the SEC’s approval prior to distribution. The SEC does not prescribe specific requirement for accounting records and the mentioned bill of exchange can be sold under several objectives. Therefore, in considering whether such bill of exchange can be classified as investment, financial institution shall refer to the intention of the Bank of Thailand guidelines.
	Section 4: Conversion of Foreign Currencies to Thai Baht	
10	In the case where there is no information on average buying rate of telex transfer and average selling rate published in the Bank of Thailand’s website for certain currency, can financial institution uses buying and selling rate from foreign markets (New York closing rate)	No, because such rate is not calculated with cross currencies exchange rate against USD average buying rate of telex transfer and USD average selling rate published by the Bank of Thailand.

No.	Questions	Answers
	calculating through USD buying/selling rate in Bangkok market and rate in foreign markets (Financial Times) calculating through USD buying/selling rate in Bangkok market that published in the website instead?	
11	If banks have foreign exchange forward currencies positions both in Trading book and Banking book, can they use Premium/Discount amortization methods for Banking book while using a rate for the remaining term for Trading book?	Financial institution can use such method if financial institution is not yet ready to use a forward rate specified in the forward contract for the remaining term in calculating foreign exchange forward positions for its Banking book.
	Section 5: Recognition of Interest income from loans or hire purchase installment	
12	In reversing interest income from loans or overdraft or hire purchase installment of debtors that financial institution had previously recorded as income when such debtors become past due or have characteristics complied with the Bank of Thailand's guidelines, for transactions occurred prior to 1 January 2000, do financial institutions receive similar exemption set forth in the old guideline?	Financial institutions still continue to receive an exemption set forth in the old guideline. Therefore, if there are any transactions occurred prior to 1 January 2000, financial institutions will receive an exemption not to reverse income as previously recorded.
13	Suspension of income recognition in accordance with Clause 3.4 when debtors are classified as loss, doubtful of loss or doubtful accounts, even though the past due of interest has not exceeded 90 days. In practice, commercial banks currently have more stringent downgrading criteria which may results in more debtors under Clause 3.4, so for O/D debtors with past due less than 90 days, but commercial banks have classified such accounts as loss, doubtful loss or doubtful, the bank will stop recognizing such income and stop calculating compounded interest in accordance with Clause 3.4 which benefits to debtors because the debtors are still able to pay their normal monthly payment.	According to Clause 3.4, when debtors do not have overdue interest exceeding 3 months but are classified as loss, doubtful loss or doubtful accounts, financial institutions must stop recognize income under accrual basis, which follow the prudent accounting principle. However, if debtors are still able to regularly pay their monthly interest payments, financial institutions can recognize the interest income under cash basis. However, even financial institution stops recognizing accrued interest as income per guideline, in managing and collecting from debtors, financial institution is still able to act within the agreement made with borrowers.
	Section 7: Recording of Bad debt Recovery	
14	Referring to the Bank of Thailand's guidelines about recording of bad debt recovery as income, does it mean that if financial institution receives repayments from debtors which had been earlier written off, the financial institution shall	In recording bad debt recovery, financial institution must follow related accounting standards. However, if financial institution chooses to record such transactions as income, they must consider essence of accounting principle

No.	Questions	Answers
	only record such proceed as income, because the accounting standards also set other treatments?	relating to probability and reliability of measurement. Hence, this must be in line with prudent accounting principle so that financial institution will not realize income higher than what it should have.
	Section 8: Dividend Policy	
15	This notification has excluded profit sharing in associates or subsidiaries from the example of unrealized profits or bear no real cash received and paid. Is this because in considering dividend payment, financial institution should only consider separate financial statement of financial institution?	Based on Public Company Limited B.E. 2535, the dividend payment for the business in Thailand must be considered from separate financial statement of specific businesses only. Therefore, the reason for eliminating profit sharing in associates or subsidiaries is to comply with prescription stated in Accounting Standards no. 44 Re: Consolidated and separate financial statements. Presently, the separate financial statement does not have profit sharing in associates or subsidiaries.
	Other issues	
16	Exposure draft of hedged accounting: It was understood that the Federation of Accounting Professions will enforce the hedge accounting guidelines next year and will issue a draft standard within this year. Therefore, in order that financial institutions are able to prepare for supporting the mentioned standard in time, we would like to know clear guiding principles.	At present, the Federation of Accounting Professions will not enforce the draft accounting practice for derivatives (which includes hedge accounting) or other draft practices which form a part of IAS39. The Federation of Accounting Professions expects to issue the entire chapter of Thai Accounting Standard that in line with IAS39 by the end of 2008 and will become effective for 2011 accounting year. In any case, business can choose to adopt the mentioned standard prior to 2011 accounting year (early adoption). The Bank of Thailand will ask financial institution to follow the Federation of Accounting Professions, which allows financial institution to early adopt IAS39 (but has to be the entire chapter). In addition, the Bank of Thailand expects to issue a new format of financial statements for financial institution in line with IAS 39 within the end of 2008 to support financial institution who want to early adopt the IAS39.
17	Exposure draft of investment: Thai Accounting Standard No. 40 has some parts which are currently in conflicting	Thai Accounting Standard No. 40 is still in effective until the new Thai Accounting Standard that in line with

No.	Questions	Answers
	with IAS39. We would like to know the clear guiding principle relating to:	IAS39 becomes effective in 2011. However, if financial institution would like to early adopt Thai Accounting Standard that in line with IAS 39, it no longer need to follow Thai Accounting Standard No. 40. However, in early adopting IAS 39, financial institution must adopt the entire chapter of IAS 39 and cannot adopt some certain parts.
	17.1 Training rules: Will Thai Accounting Standard accept this principle?	17.1 Training rules will follow the enforcement of Thai accounting standard that in line with IAS 39.
	17.2 Investments in loan: Currently, the principle of loans purchased from others must be recorded as investment in debtors while the principle of IAS 39 states that any assets without market value must be recorded as Loans and Receivables. As there is no market for Loans and Receivables in Thailand, therefore, based on IAS 39, they should be classified as Loans.	17.2 Treatment of investments in loan will follow the enforcement of Thai Accounting Standard that in line with IAS39. However, at present, the Bank of Thailand is requesting clarifications from the Federation of Accounting Professions whether the accounting practice relating to transferring and receiving of financial assets dated 30 August 2000 issued by the Federation of Accounting Professions is considered as accounting standard under the Accounting Act B.E. 2543. If the mentioned practice cannot be enforceable under the law, the Bank of Thailand may consider issuing a notification on such issue to comply with IAS3 to enforce with financial institution prior to the issuance of Thai Accounting Standard that in line with IAS39 by the Federation of Accounting Professions.
	17.3 General investment portfolio of unquoted equity: Base on IAS39 principle, there will be no general investment. Thus, financial institution must transfer investment in unquoted equity to AFS or Trading securities. This (transfer) requires financial institution to find valuation techniques to value these investments. Then, we would like to know the direction of the Federation of Accounting Professions whether to revoke	17.3 The paragraph 46 c. of IAS39 specifies that financial institution is required to show the value of general investment portfolio of unquoted equity by using cost less impairment investments. "46 c. equity instrument that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which

No.	Questions	Answers
	assets categorized as general investment and to know the direction of the Federation of Accounting Professions regarding such asset category.	shall be measured at cost (see Appendix A paragraphs AG80 and AG81)".
18	Embedded derivative of TAMC: For TAMC bill of exchange, the proceeds that banks will receive on loan repayment from TAMC still bear some risk since TAMC can transfer credit risk from already-purchased loan back to the bank. Can financial institution consider this as the instrument with embedded credit derivative? Does financial institution need to bifurcate and separate the embedded derivative value, as the issue of valuing credit risk is quite difficult and complicated?	For TAMC bill of exchange, it is not considered to have embedded derivative. At present, it must be considered as investment in debt instrument.
19	Trade date vs. settlement date: Financial institution would like to know the specified period to which the Bank of Thailand will prescribe only trade date accounting for securities.	For the accounting record, financial institution shall follow the in accordance with accounting standards. However, the Bank of Thailand has prescribed the approach to calculate capital funds of derivative transactions by counting since from trade date as per the Notification of the Bank of Thailand No. SorNorSor. 54/2551 regarding principles for calculating credit risk weighted assets for commercial banks dated 3 August 2008. Therefore, in calculating capital to risk weighted assets for the Bank of Thailand, if financial institution chooses to use settlement date in recording assets in financial statements, financial institution must adjust such investments as if they were using trade date accounting. The purpose of this is to achieve the same standard for financial institution in maintaining capital funds and to be in effective since from December 2008.