

# Financial Instruments



# IFRS 9 Introduction

More principal-based and less complex

## Classification and measurement

- Financial assets are classified on the basis of the business model which they are held and their contractual cash flow characteristics.
- Fair value option for financial liabilities, the effect of changes in a liability's credit risk ought not to effect profit or loss unless the liability is held for trading.

## Impairment

An entity accounts for expected credit losses, and changes in those expected credit losses. It is no longer necessary for a credit event to have occurred before credit losses are recognized. Then the amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

## Hedge accounting

The requirements align hedge accounting more closely with risk management

## Dynamic risk management

IASB continued its discussions on its dynamic risk management (DRM) project at the November 2017 meeting and discussed two approaches for a DRM accounting model. It discussed the objectives of the model and whether it should follow cash flow hedge mechanics or fair value hedge mechanics. The Board tentatively agreed that a model based on cash flow hedge mechanics should be developed. The staff will present a project plan at the next board meeting.



## Definition of Financial Instruments

TAS 32

“A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of another entity.”

**Include** a broad range of financial assets and financial liabilities



Primary financial instruments



***“e.g. cash (financial institutions), receivables, debt, shares in another entity”***

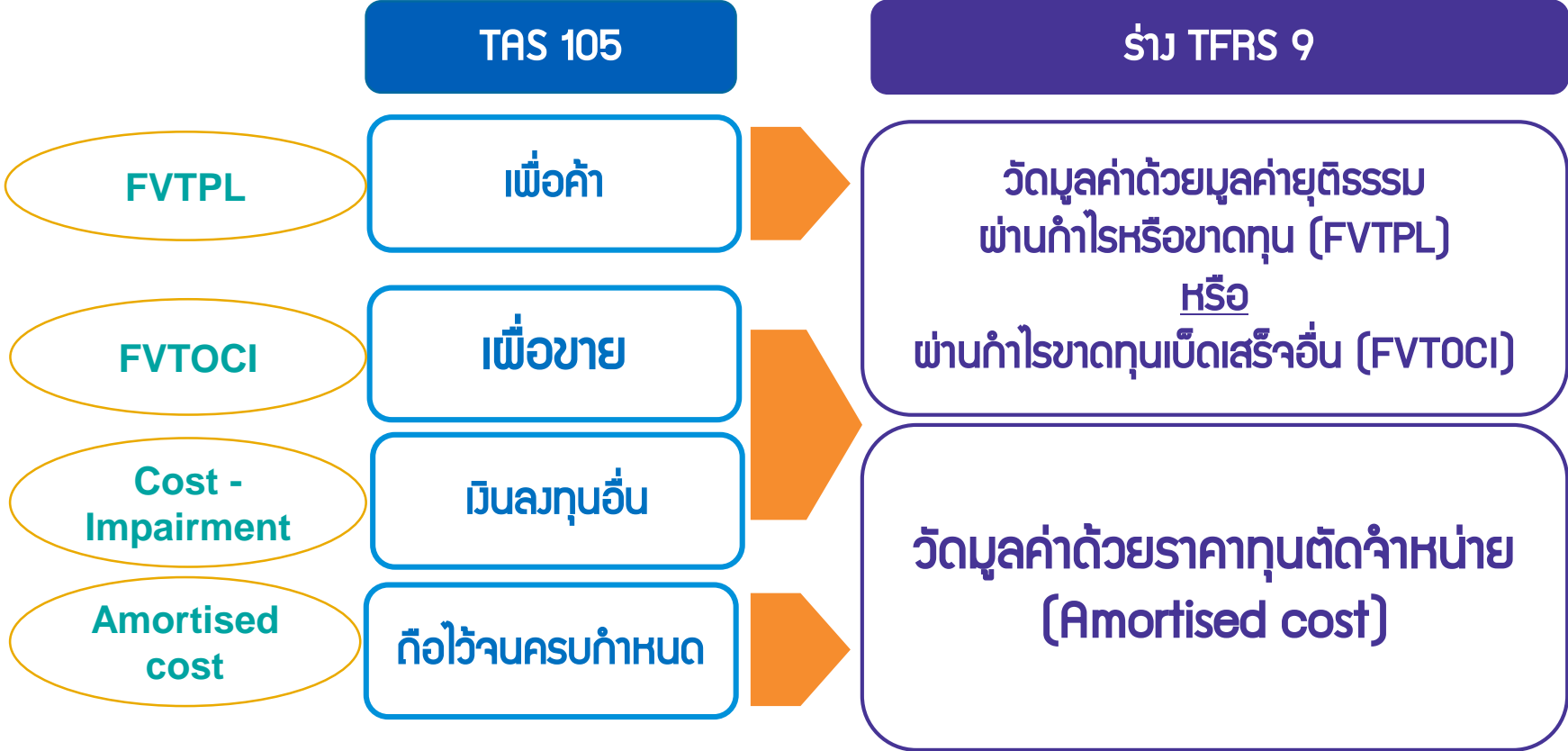
Derivative financial instruments



***“e.g. options, forwards, future contracts, interest rate swaps, currency swaps”***

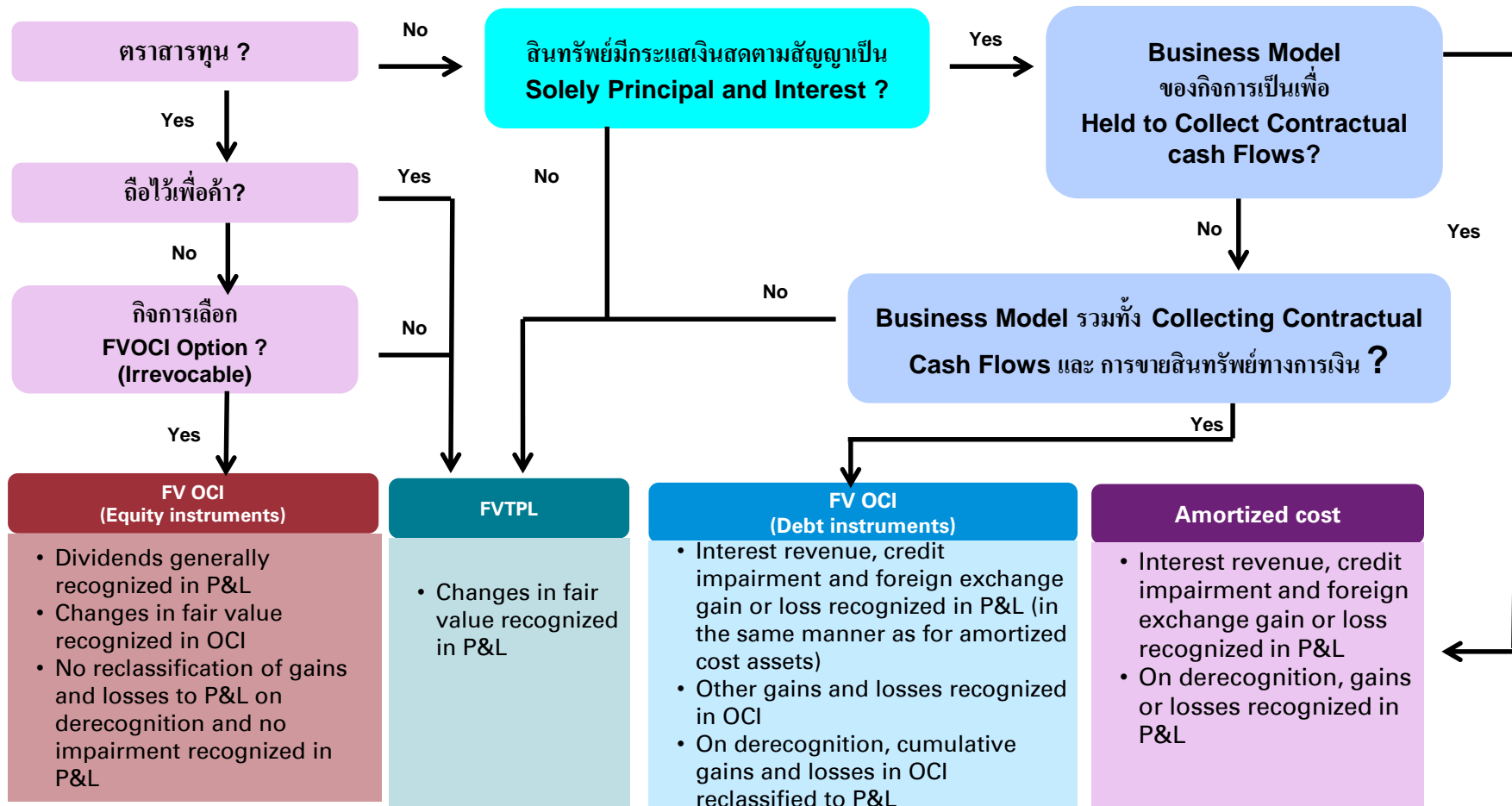
# Financial Assets - Classification and Measurement

	Current Practice	Forthcoming
Classification and Measurement	TAS 105	IFRS 9/TFRS 9



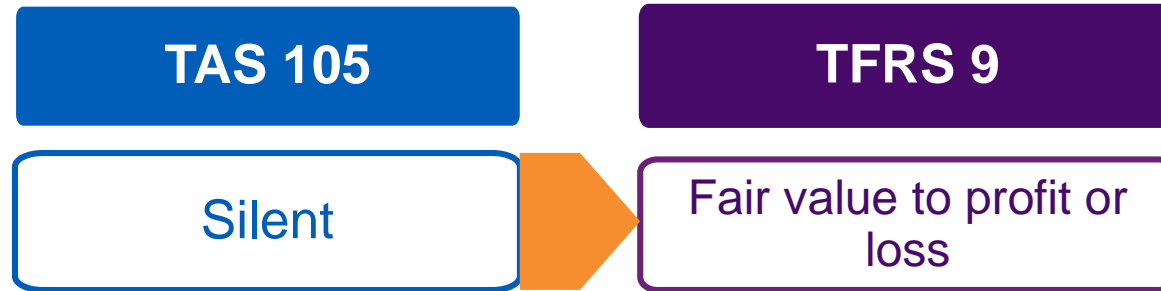
# การจัดประเภทรายการสินทรัพย์ทางการเงินตาม TFRS 9

## สินทรัพย์ทางการเงินภายใต้ขอบเขต TFRS 9



# Derivative

	Current Practice	Forthcoming
Derivative	Silent in TFRS	IFRS 9



ตราสารอนุพันธ์ หมายถึง เครื่องมือทางการเงินหรือสัญญาอื่นภายใต้ขอบเขตของ IFRS 9 ซึ่งมี 3 คุณลักษณะ ดังนี้

1. การเปลี่ยนแปลงในมูลค่าจะเป็นไปตามการเปลี่ยนแปลงของตัวแปรที่ระบุไว้ในสัญญา เช่น อัตราดอกเบี้ย อัตราแลกเปลี่ยนเงินตราต่างประเทศ เป็นต้น
2. ไม่มีการจ่ายเงินลงทุนสุทธิเมื่อเริ่มแรก หรือจ่ายด้วยจำนวนที่น้อยกว่าการได้มาซึ่งเครื่องมืออื่นที่ตอบสนองต่อตัวแปรคล้ายคลึงกัน
3. การรับหรือจ่ายชำระจะเกิดขึ้นในอนาคต

# Classification and Measurement

## Potential impact

- **Classification of debt or equity other than legal form**
- **Financial assets classification depends on each investment's contractual cash flows and how the entity manages groups of investments.**
- **All investments in equity instruments including unquoted shares need to be measured at fair value.**
- **If the company elects FVOCI for equity investments gains / losses will never be recycled to P&L**
- **All derivatives need to be recorded on statement of financial position at their fair value**

## Transitional procedure

### International requirement

1. **It required to consider contracts outstanding as at initial application to comply with IFRS 9. Then the defining type of investment would be done on initial application date.**
2. **The derecognizing transactions before implementation date are not allow to reconsider.**
3. **It also required to retrospective adjustments the classification.**

### Local option (additional)

- **To allow the entity to recognize the GAAP different to retained earning or OCI (if appropriated)**
- **Not require retrospective classification**

# Classification and Measurement

## Potential impact

- **Consider proper effective interest rate other than contract rate**

## Transitional procedure

### International

1. **Retrospective adjustment**
2. **In case of impracticable to retrospectively apply the EIR method.**

**If comparative are restated, then the FV of financial instrument as at the end of each comparative period presented is treated as the gross carrying amount of the financial instruments. FV of the financial instrument at the date of initial application is treated as the new gross carrying amount of the financial instruments at that date.**

### Additional Local Option

1. **Contract before initial application, calculate new EIR based on remaining cash flow.**
2. **Contract on or after initial application would apply requirement under TFRS 9**
3. **Not required retrospective adjustment**



# Impairment



# Impairment

## Impairment under TFRS 9

**Impairment** is recognized using an “Expected Credit Loss” impairment methodology

## TAS 101

TAS 101 กำหนดวิธีการประมาณหนี้สงสัยจะสูญ 3 วิธี ได้แก่

1) จำนวนเป็นร้อยละของยอดขาย

2) จำนวนเป็นร้อยละของยอดลูกหนี้

3) จำนวนโดยพิจารณาลูกหนี้แต่ละราย

## TFRS 9 proposed 3 approaches

### General Approach

Apply to most loans and debt securities

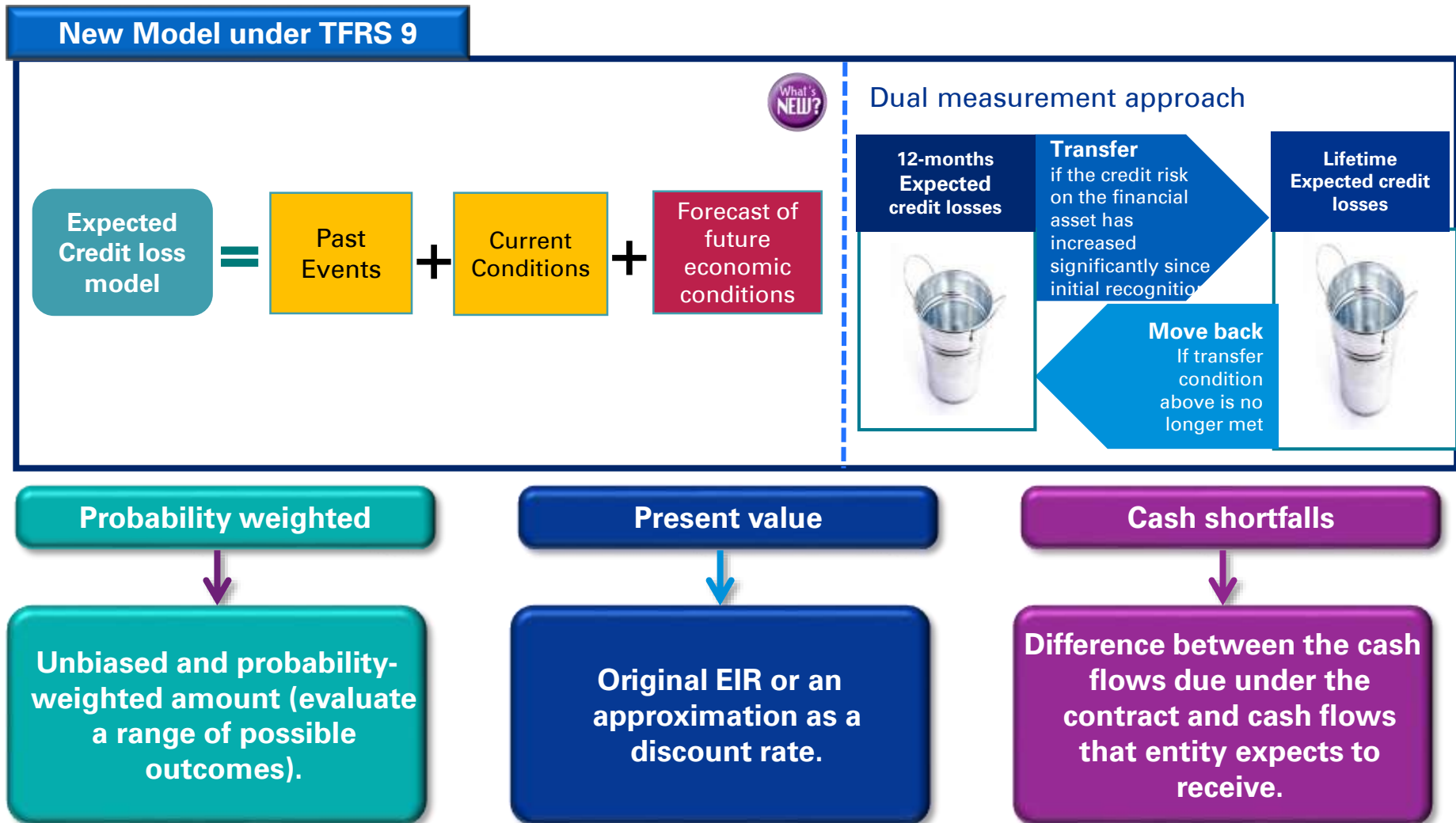
### Simplified Approach

Apply to most trade receivables and lease receivable

### Purchased or originated credit-impaired approach

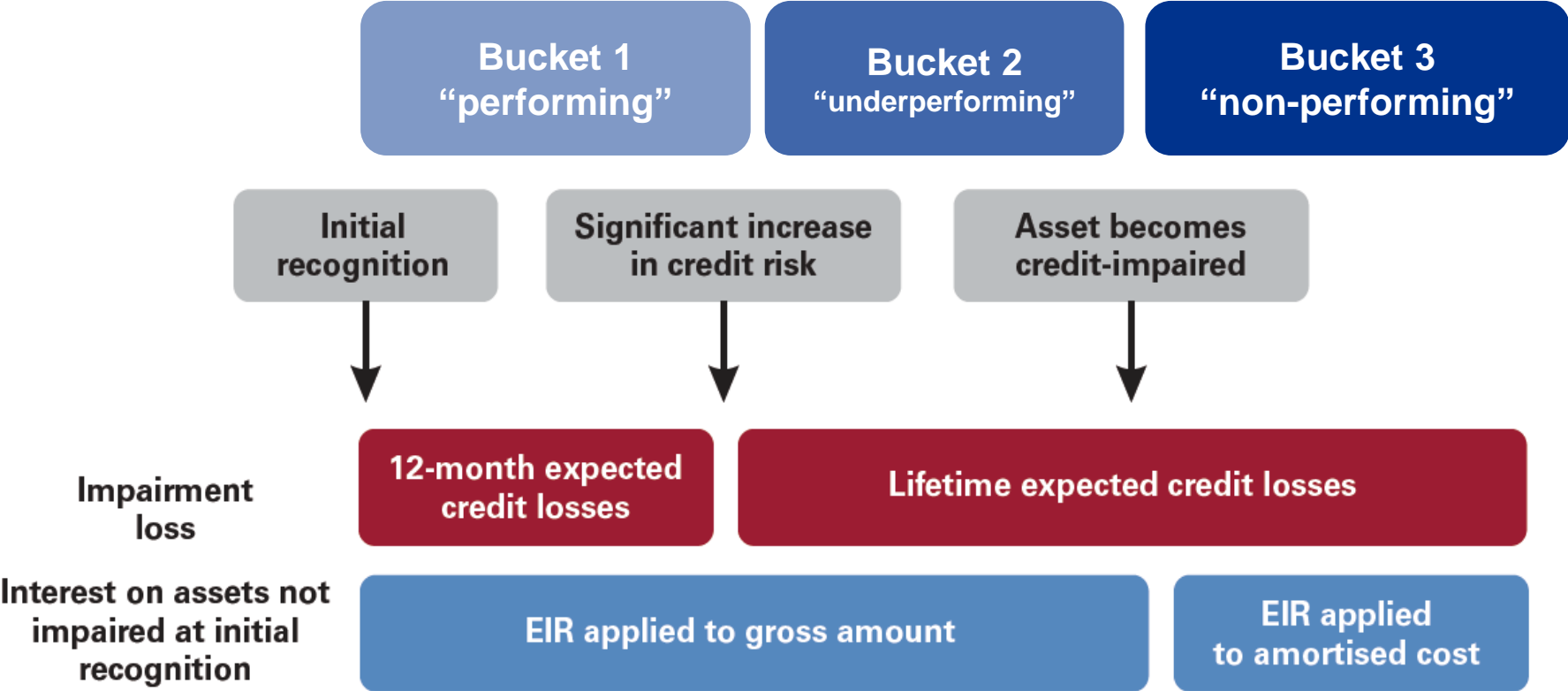
Asset is credit-impaired at initial recognition. Recognises changes in lifetime expected losses since initial recognition.

# Impairment - general approach



# General Approach

## 12-month vs Lifetime expected credit losses



# Simplified Approach

## Simplified Approach

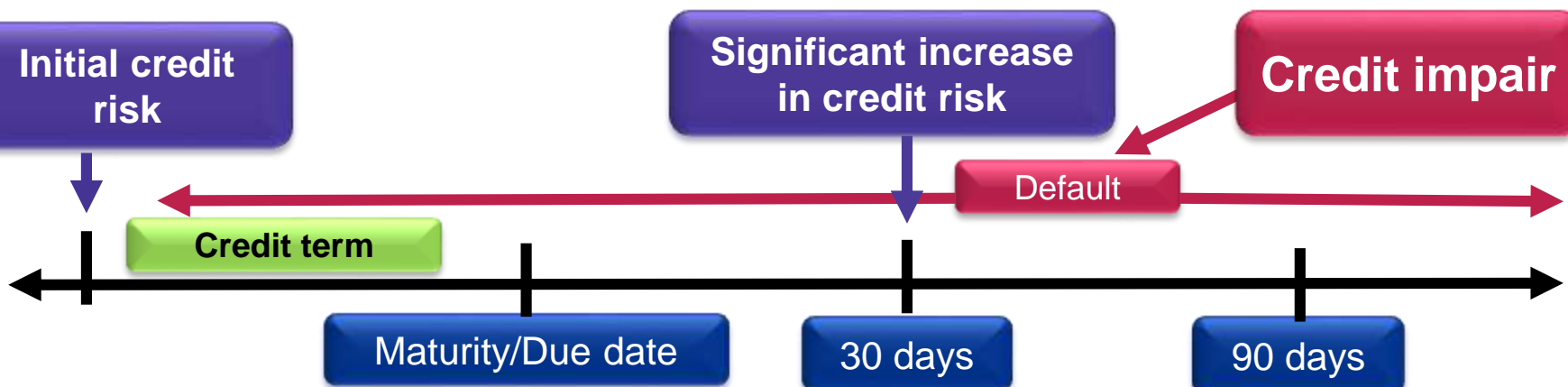
Apply to most trade receivables and lease receivable

### Financial assets with low credit risk

- May assume that the credit risk on a financial instrument has not increased significantly.
- Assessment can be based on external or internal ratings.

### Rebuttable presumption

- Significant increase in credit risk if financial assets > 30 days past due.
- Default does not occur later than 90 days past due.



# Simplified Approach - Example

1) จำนวนเป็นร้อยละของ ยอดขาย

2) จำนวนเป็นร้อยละของ ยอดลูกหนี้

3) จำนวนโดนพิจารณา ลูกหนี้แต่ละราย

In Baht

	Loss rate %	31 December 2019	TAS 101	31 December 2018	TAS 101
			Loss Allowance		Loss Allowance
Within due	0%	15,000,000	0	14,000,000	0
Overdue:					
Less than 3 months	0%	14,000,000	0	14,000,000	0
3 – 6 months	25%	700,000	175,000	100,000	25,000
6 – 12 months	50%	200,000	100,000	50,000	25,000
More than 12 months	100%	100,000	100,000	100,000	100,000
		30,000,000	375,000	28,250,000	150,000
<u>Less</u> Allowance for doubtful account		(375,000)		(150,000)	
Net		29,625,000		28,100,000	

# Simplified Approach - Sample

**Judgement  
required**

**Calculation of impairment using the provision matrix:**

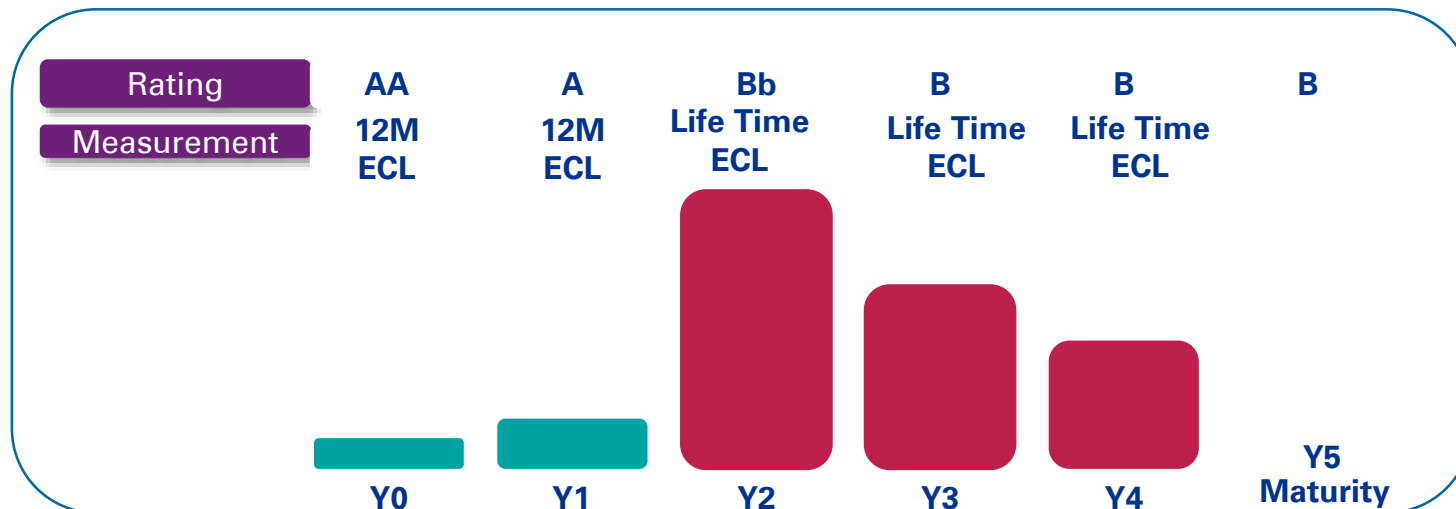
**In Baht**

	TFRS 9			TAS 101	
	Outstanding (A)	Loss rate (B)	Loss allowance 2019 (A x B)	% of AR (C)	Loss Allowance 2019 (A x C)
<b>Current</b>	15,000,000	0.3%	45,000	0%	0
<b>Past due</b>					
<b>1-30 days</b>	7,500,000	1.6%	120,000	0%	0
<b>31-60 days</b>	4,000,000	3.6%	144,000	0%	0
<b>61-90 days</b>	2,500,000	6.6%	165,000	0%	0
<b>91-180 days</b>	700,000	25%	175,000	25%	175,000
<b>181-360 days</b>	200,000	50%	100,000	50%	100,000
<b>More than 360 days</b>	100,000	100%	100,000	100%	100,000
	<b>30,000,000</b>		<b>849,000</b>		<b>375,000</b>

# General approach - Sample

If Company A invest in 5-years Debt Security 10,000,000 THB.

Rating	Aa	A	Bb	B
Expected Loss 12 months	0.10%	0.20%	1%	2%
Expected Loss Life time per (remaining maturity)	0.15%	0.30%	10% (3yrs)	5% (2yrs)



Provision	Year 0	Year 1	Year 2	Year 3	Year 4
THB	10,000	20,000	1,000,000	500,000	200,000



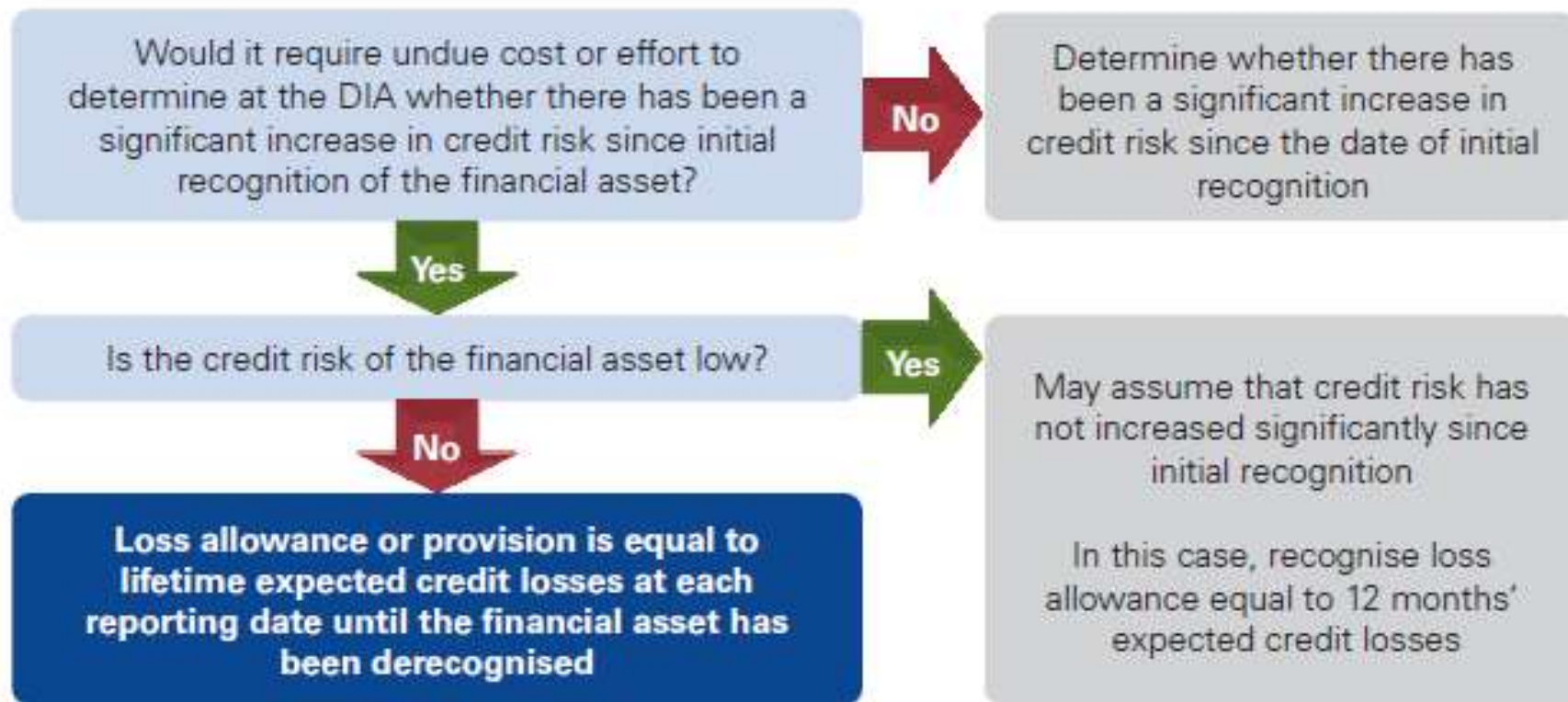
## Potential impact

- **Bad debt provisions are likely to be larger and more volatile.** Impairment of trade receivables and contract assets without a significant financing component will be based on lifetime ECLs.
- For trade receivables or contract assets with a significant financing component, and lease receivables, an entity may choose to either apply **the general approach or recognise lifetime ECLs at all times.**

# เมื่อเริ่มใช้เป็นครั้งแรก



Retrospective application with certain exceptions as follows:



- IFRS 9 is not applied to derecognised items at the date of initial application (DIA).

## ทางเลือกเพิ่มเติมของแนวปฏิบัติในช่วงเปลี่ยนแปลงของไทย

1

ผลแตกต่างที่เกิดขึ้น ณ วันที่ถือปฏิบัติเป็นครั้งแรก ให้ปรับปรุงเข้ากำไรสะสม ณ วันต้นงวดของปีที่ถือปฏิบัติเป็นครั้งแรก (1 มกราคม 2562)

2

ผลแตกต่างที่เกิดขึ้น ณ วันที่ถือปฏิบัติเป็นครั้งแรก ให้รับรู้ผลกระทบสะสมในกำไรหรือขาดทุนตามวิธีเส้นตรงภายในระยะเวลา 3 ปีนับจากวันที่นำ TFRS ฉบับนี้มาใช้และเปิดเผยข้อมูล ดังต่อไปนี้

- เปิดเผยข้อมูลว่ากิจการใช้ทางเลือกดังกล่าว
- เปิดเผยข้อมูล ณ ทุกวันสิ้นรอบระยะเวลารายงานเกี่ยวกับ 1) จำนวนค่าเผื่อผลขาดทุนสะสมที่เพิ่มขึ้นซึ่งยังไม่ได้รับรู้ (2) จำนวนค่าเผื่อผลขาดทุนสะสมที่เพิ่มขึ้นซึ่งรับรู้ในกำไรหรือขาดทุนในงวดปัจจุบัน

3

กิจการอาจเลือกกำหนดความเสี่ยงด้านเครดิตเมื่อเริ่มแรก โดยใช้วิธีการพิจารณาความเสี่ยงด้านเครดิตล่าสุดก่อนวันที่มาตรฐานการรายงานทางการเงินนี้จะมีผลบังคับใช้ และใช้ปัจจัยที่เกี่ยวข้องและเหมาะสมที่สุดซึ่งสามารถหาได้โดยมีต้นทุนหรือความพยายามที่ไม่มากเกินไปในการเทียบเคียงความเสี่ยงด้านเครดิตเสมือนเมื่อเริ่มแรก

# Disclosures



## IFRS 7 will affect

- Extensive new disclosures both qualitative and quantitative are required.
- The current systems to capture the new disclosure requirements.

### Example of extensive disclosure

#### Impairment

- Explanation of how judgment is exercised
- Explanation of how entity determines the significant increase in credit risk
- Expected credit loss calculations

#### Hedge accounting

- Risk management strategy
- Amount, timing, and uncertainty of future cash flows
- Effects of hedge accounting on financial position and performance

#### C&M

- Fair values
- Items designed at FVTPL
- Disclosure requirements for reclassifications



# Transitional procedure General

# Keeping you informed



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## Contact Detail:

Somboon  
Supasiripinyo

Yuwanuch  
Thepsongvaj  
Partner - Audit  
+ 66 2677 2142  
yuwanuch@kpmg.co.th