TFRS 9 - Financial Instruments

Overview and Key Challenges

25 May 2017
Introduction to TFRS 9

- Timeline
- Scope and Overview
- Potential Impacts
  - Classification and Measurement
  - Impairment
  - Hedge Accounting
  - Presentation and Disclosures

Key Areas to Focus

- Roadmap for successful TFRS 9 Implementation
  - Understand requirements and impacts
  - Plan and Assess
  - Design and Develop
  - TFRS 9 Implementation
- New Challenges to Focus

Questions to Discuss

- Questions for Audit Committee to focus the discussions with management
Introduction to TFRS 9

Timeline

2017

IAS 39, IAS 32, and IFRS 7

2018

IFRS 9, IAS 32, and IFRS 7

IFRS 13

2019

IFRS 15

IFRS 16

2020

TFRS 9, TAS 32, and TFRS 7

IFRS 13

TFRS 15

TFRS 16

TAS 101, 103, 104, 105, 106, and TAS 107

FAP

TFRS 9, TAS 32, and TFRS 7

TFRS 13

TFRS 15

TFRS 16
**Introduction to TFRS 9**

**Scope and Overview**

**TFRS 9 – Financial Instruments**

**“Hearing from KPMG and IASB”**

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**Winid Silamongkol**
Chief Executive Officer
KPMG in Thailand, Myanmar & Laos

“IFRS 9 has not just effected Banks and financial institutions but other corporations as well. Therefore to avoid any sudden unwarranted impact on transition to IFRS9, considering both the preparation of IFRS9 requirement and the readiness of the entity for adoption are crucial.”

**Chris Spall**
KPMG’s global IFRS financial instruments leader

“The new standard is going to have a massive impact on the way banks account for credit losses on their loan portfolios. Provisions for bad debts will be bigger and are likely to be more volatile” IFRS 9

Source: Financial instrument – the complete standard Publication

**Hans Hoogervorst**
IASB Chairman

“The impairment element of IFRS 9 will result in fundamental change to current practice. It should help investors get a better picture of the risks banks face with regard to potential losses on loans extended to customers.”

Source: IASB Chairman speech: impairment requirement will result in fundamental change

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Definition of Financial Instruments

“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”
Introduction to Financial Instruments

TFRS 9 - Future of Financial Instruments Accounting

Classification and Measurement
- Measurement bases for financial assets are fair value and amortized cost
- Criteria for classification into appropriate measurement category are significantly different
- Fair value of derivatives
- New method for assessing the entire hybrid instrument
- Classification of debt and equity securities (IAS 32)

Hedge Accounting
- Potentially available for a broader range of hedging strategies
- Hedge accounting is likely to be required to reduce volatility in earning arising from the derivative measured at fair value

Impairment
- Replacement of simplified model in TAS 101 with an ‘Expected Credit Loss’ in TFRS 9

Presentation and Disclosure
- Extensive new disclosures are required to explain how judgment is exercised as well as quantitative disclosure
- Changes in system and controls may be necessary to focus in order to capture sufficient required data
TFRS 9 brings major changes to how you classify financial assets and record impairment. It also brings a new hedge accounting model that is aligned with risk management and extensive new disclosures.

- Replacement of Incurred Loss’ model in IAS 39 with an ‘Expected Credit Loss’ in TFRS 9

- Extensive new disclosures are required to explain how judgment is exercised as well as quantitative disclosure
- Changes in system and controls may be necessary to focus in order to capture sufficient required data
Introduction to TFRS 9

TFRS 9 - Future of Financial Instruments Accounting

Potential Impacts

Classification and Measurement

TAS 105, TAS 106

Future Adoption

TFRS 9

Impairment

TAS 101, TAS 104

TFRS 9

TFRS 9

Hedge Accounting

Not mention

TFRS 9

Presentation and Disclosure

TAS 103, TAS 106, TAS 107

TFRS 7, TAS 32
Introduction to TFRS 9

TFRS 9 - Overview of Potential Impacts

Classification and Measurement

Example of Accounts

<table>
<thead>
<tr>
<th>Investment in Trading Securities</th>
<th>Equity Instrument</th>
<th>FVTPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Available-For-Sale Securities</td>
<td>Equity Instrument</td>
<td>Debt Instrument</td>
</tr>
<tr>
<td>Investment in Other Securities</td>
<td>Equity Instrument</td>
<td>Cost - Impairment</td>
</tr>
<tr>
<td>Investment in Held-To-Maturity Securities</td>
<td>Debt Instrument</td>
<td>Amortized Cost</td>
</tr>
<tr>
<td>Financial Liabilities</td>
<td></td>
<td>Not Mention</td>
</tr>
<tr>
<td>Date of Initial Application (DIA)</td>
<td>1 Jan 2019</td>
<td></td>
</tr>
</tbody>
</table>

TFRS 9 (Draft)

<table>
<thead>
<tr>
<th>TAS 105</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment in Trading Securities</td>
</tr>
<tr>
<td>Investment in Available-For-Sale Securities</td>
</tr>
<tr>
<td>Investment in Other Securities</td>
</tr>
<tr>
<td>Investment in Held-To-Maturity Securities</td>
</tr>
<tr>
<td>Financial Liabilities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FVTPL</th>
</tr>
</thead>
<tbody>
<tr>
<td>FVTOCI</td>
</tr>
<tr>
<td>Cost - Impairment</td>
</tr>
<tr>
<td>Amortized Cost</td>
</tr>
<tr>
<td>Not Mention</td>
</tr>
</tbody>
</table>

| Fair value through Profit or Loss (FVTPL) |
| Fair value through Profit or Loss (FVTPL) or Fair value through OCI (FVTOCI) |
| Amortized Cost (SPPI) |
| FVTPL or Amortized Cost (Other Liabilities) |
## Classification and Measurement

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Measurement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amortized Cost</td>
<td>Fair Value</td>
<td></td>
</tr>
<tr>
<td>Trade Receivables / Other Receivables</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Loans to</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Investment in Equity Securities</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Investment in Debt Securities</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Forward Contract, Swap, Option, Warrant (Non-hedging)</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Trade Payable / Other Payable</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Loans from</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Promissory Note, Bonds</td>
<td></td>
<td>⭐</td>
</tr>
<tr>
<td>Forward Contract, Swap, Option, Warrant (Non-hedging)</td>
<td></td>
<td>⭐</td>
</tr>
</tbody>
</table>
Impairment is recognized using an “Expected Credit Loss” impairment methodology.

New Model

Expected Credit loss model = Past Events + Current Conditions + Forecast of future economic conditions

Dual measurement approach

12-month expected credit losses

Credit risk

OR

Lifetime expected credit losses

Credit risk

Example of Accounts

<table>
<thead>
<tr>
<th>Trade Receivables (for allowance for doubtful)</th>
<th>1 Jan 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAS 101 (3 Approaches)</td>
<td>TFRS 9</td>
</tr>
<tr>
<td>- Percentage of Sale</td>
<td>Expected Credit Loss impairment methodology</td>
</tr>
<tr>
<td>- Percentage of AR</td>
<td>- Simplified Approach</td>
</tr>
<tr>
<td>- Consider each AR</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Loans / Debt Instruments</th>
<th>1 Jan 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>TAS 101 – Doubtful accounts and Bad debts</td>
<td>TFRS 9</td>
</tr>
<tr>
<td>Expected Credit Loss impairment methodology</td>
<td></td>
</tr>
<tr>
<td>- General Approach</td>
<td></td>
</tr>
</tbody>
</table>
Introduction to TFRS 9

TFRS 9 - Overview of Potential Impacts

Hedge Accounting

1 Jan 2019

Hedge Accounting Model

A more judgmental approach is required

Prospective application or Retrospective application is required upon certain conditions.

Example

<table>
<thead>
<tr>
<th>Hedged Item</th>
<th>Hedging Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan in foreign currency</td>
<td>Cross Currency Swap</td>
</tr>
<tr>
<td>Commodity derivatives</td>
<td>Commodity Forward Contract</td>
</tr>
</tbody>
</table>

Hedge Accounting Model

Prospective application or Retrospective application is required upon certain conditions.
TFRS 9 will affect

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

**Classification and Measurement**

Specific disclosure requirements include the information such as:
- Carrying amounts
- Fair values
- Items designed at FVTPL
- Collateral, etc.

- Information related to the transfers of financial assets
- Disclosure requirements for reclassifications

**Example**

**Impairment**

- Explanation of how judgment is exercised
- Significant changes in gross carrying amounts of financial asset, etc.
- 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
TFRS 9 - Overview of Potential Impacts

IFRS 9 will affect

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

Specific disclosure requirements include the information such as:
- Carrying amounts
- Fair values
- Items designed at FVTPL
- Collateral, etc.
- Information related to the transfers of financial assets

Designing disclosures and sourcing data are the key part of TFRS 9 implementation. A complex and time-consuming process may be required to capture additional information

- Effects or hedge accounting on financial position and performance
- Explanation of how entity determines the significant increase in credit risk
- Expected credit loss calculations
Introduction to TFRS 9

- Timeline
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Key Areas to Focus

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Questions to Discuss

- Questions for Audit Committee to focus the discussions with management
## Roadmap for Successful TFRS 9 Implementation

<table>
<thead>
<tr>
<th>Understand TFRS 9 Requirements and Impacts</th>
<th>Plan and Assess</th>
<th>Design and Develop (Prepare for Changes)</th>
<th>TFRS 9 Implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 – 3 Months</td>
<td>4 - 6 Months</td>
<td>8 Months</td>
<td></td>
</tr>
</tbody>
</table>

### Understand new standards
- Comprehensive understanding of both qualitative and quantitative impacts of TFRS9 and other related standards
- Key changes to the organization

### Plan for transition and assess impacts
- Evaluation of transition alternatives
- Accounting changes including reporting practices
- Current systems and processes
- Existing business model and practices
- Expertise needed for the transition
- Transition Strategies Plan

### Design and Develop the right solution
- Relevant accounting applications and policies
- All gaps from impact assessments
- Modifications required for the implementation of new standard (Data and System, Accounting, Business Model, and People)
- Involvement of the consultants for transition
- Communication with the stakeholders

### Launch the future state of financial instrument accounting
- Application of new TFRS 9 and related standards
- Transition Strategies Implementation
- Implementation of Monitoring process to ensure compliance with relevant standards
- On-going supports for the transitions

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Date of Initial Application – 1 January 2019

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Key Areas to Focus

Roadmap for Successful TFRS 9 Implementation

Understand TFRS 9 Requirements and Impacts

| 2 – 3 Months |

Plan and Assess

| 4 - 6 Months |

Design and Develop (Prepare for Changes)

| 8 Months |

TFRS 9 Implementation

- **Understand new requirements.**
- **Assessing accounting policies relevant to the new standards.**
- **Planning for changes in regulatory reporting and disclosure requirements.**
- **Consulting with professional advisor in to assist in reviewing policies and practices in alignment with new standards.**

- **Assessing the data system readiness for extensive information requirement.**
- **Engaging IT Team to prepare for data collection processes and identifying gaps in system needs.**
- **Involving the professional consultants to assist in implementation of new systems to develop a transition plans. SAP, Oracle, Misys are the key systems to accommodate IFRS 9.**

- **Evaluating impacts of accounting changes and general business issues.**
- **Reviewing existing model to be aligned with new requirements.**
- **Reviewing risk management process - governance, development, review and independent validation.**

- **Assessing competencies and capabilities of the current resources.**
- **Embedding new required knowledge to the relevant personnel.**
- **Developing training strategies across all functions**
- **Continuing supports for people development**

New Challenges to Focus

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Key Topics

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Quick Questions for AC

"Active management, robust assessment, and high quality implementation are key factors"

01 What is the status of TFRS 9 adoption process?

02 What plans are considered to identify key decisions including business model and accounting interpretations?

03 Is there sufficient resources to implement the changes?

04 Have all changes to current systems been captured to satisfy the requirement of new standards?

05 What steps are being taken to support smooth transitions?
Question & Answer
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