Major Changes of Financial Reporting
TFRS 9, 15, and 16

13 March 2018
Upcoming Financial Reporting Standards - Time of Challenges

01 Introduction to Forthcoming Financial Reporting Standards
- Timeline for Thai Financial Reporting Standards
- Challenges and Priorities for Audit Committee
- Quick Assessment – Is the Company ready to go?

02 Key Highlights and Impacts of TFRS 9, 15, and 16
- TFRS 9 – Financial Instruments
- TFRS 15 – Revenue from Contracts with Customers
- TFRS 16 – Leases

03 Next steps and Actions to be taken
- Roadmap for Effective Transition
- Transition options – choosing the best options

04 Key Takeaways
- Questions for Audit Committee to propel the discussion with management
- Key takeaways

Finish
Timeline for Thai Financial Reporting Standards

We are here !!

THE FINANCIAL YEAR

<table>
<thead>
<tr>
<th>Year</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January</td>
<td>1 January</td>
<td>1 January</td>
<td></td>
</tr>
</tbody>
</table>

Financial Instruments (TFRS 9)

Revenue from Contracts with Customers (TFRS 15)

Leases (TFRS 16)

Which standards are effective in each financial year? Is the Company Ready to go?

Newly Effective Financial Reporting Standards

Gather data

Comparative period
Reasons why AC should be well aware of new standards

“New financial reporting standards may have significant impacts not only financial statements but also people, systems, and processes”

Major Change in Accounting Requirements
- More complex accounting rules/judgments need to be embedded with extensive qualitative and quantitative disclosures
- The new standards may impact key accounting metrics
- Sufficient and appropriate resources (people) must be secured to fulfill the transitions

Update on systems and processes
- IT systems and processes may require updating to support new methodology and requirements
- The future systems and processes need to incorporate the changes for these new standards

Challenges from regulators and stakeholders
- The documentation should be appropriately prepared for potential scrutiny or audit
- Stakeholders shall be informed on implementation projects and anticipated impacts
Quick Check on new standards

Is the Company ready to go?

- TFRS 9 - Financial Instruments
- TFRS 15 - Revenue from Contracts with Customers
- TFRS 16 - Leases
How did the Company do?

“Some companies may soon realize that they are running out of time to prepare for the transition”
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TFRS 9 - Financial Instruments
"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."

<table>
<thead>
<tr>
<th>Classification &amp; Measurement</th>
<th>Impairment (ECLs)</th>
<th>Hedge Accounting</th>
<th>Disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Change the classification and measurement concept</td>
<td>• Introduce expected credit losses concept</td>
<td>• Align FS more with risk management activities</td>
<td>• Require extensive new disclosures</td>
</tr>
<tr>
<td>• Introduce FVTPL, FVOCI, and amortised cost</td>
<td>• Require supportable information (historical, current, and forecast)</td>
<td>• Reduce P/L volatility</td>
<td></td>
</tr>
<tr>
<td>• Introduce EIR concept</td>
<td></td>
<td>• Require to meet all hedging qualification (i.e. documentation, hedge effectiveness)</td>
<td></td>
</tr>
<tr>
<td>• Record derivatives on B/S</td>
<td></td>
<td>• Optional</td>
<td></td>
</tr>
</tbody>
</table>
### TFRS 9 - Example of Key Impacts on FS

<table>
<thead>
<tr>
<th>Financial Assets</th>
<th>Current Thai GAAP</th>
<th>TFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deposits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>At cost</td>
<td>Amortised cost</td>
</tr>
<tr>
<td><strong>Loans and receivables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade account receivables</td>
<td>NRV</td>
<td>Amortised cost</td>
</tr>
<tr>
<td>Other receivables</td>
<td>At cost / NRV</td>
<td>Amortised cost</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt securities</td>
<td>AFS</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Equity securities</td>
<td>AFS</td>
<td>Fair Value</td>
</tr>
<tr>
<td>Other non-marketable securities</td>
<td>At cost</td>
<td>Fair Value</td>
</tr>
<tr>
<td><strong>Derivatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative assets</td>
<td>Off-BS</td>
<td>Fair Value</td>
</tr>
</tbody>
</table>

“The Company shall review the existing accounting procedures to identify the differences between current GAAP and requirements under TFRS 9”

Identify impacts:
- **C&M**: Low, Moderate, High
- **ECLs**: Low, Moderate, High
- **Hedge Accounting**: Low, Moderate, High
### TFRS 9 - Example of Key Impacts on FS

<table>
<thead>
<tr>
<th></th>
<th>Current Thai GAAP</th>
<th>TFRS 9</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Borrowings and payables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade account payables</td>
<td>At cost</td>
<td>Amortised cost</td>
</tr>
<tr>
<td>Other payables</td>
<td>At cost</td>
<td>Amortised cost</td>
</tr>
<tr>
<td><strong>Debentures</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debentures</td>
<td>Amortised cost</td>
<td>Amortised cost</td>
</tr>
<tr>
<td><strong>Derivatives</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Derivative liabilities</td>
<td>OFF-BS</td>
<td>Fair Value</td>
</tr>
<tr>
<td><strong>Hedge Accounting</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Forward exchange contracts</td>
<td>Accrual basis</td>
<td>Eligible / non-eligible hedges</td>
</tr>
<tr>
<td>Cross currency swaps contracts</td>
<td>Accrual basis</td>
<td></td>
</tr>
</tbody>
</table>

#### Hedge Accounting is optional

**Pro**
- Reduced volatility in earnings & EBITDA, especially for long-term hedging
- Improved cash flow forecasting
- Reduced risk of breaching covenants or credit rating downgrades

**Con**
- Systems and human resources to meet hedge documentation, effectiveness, and disclosure requirements
- Risk of accounting treatments
- Potential volatility in reserves (CF hedge or Net investment hedge)
TFRS 15 - Revenue from Contracts with Customers
TFRS 15 - Key differences from current requirements

**Current guidance**

- Guidance contained **in multiple standards** and interpretations
- **Risk and rewards** based model
- Revenue measured at the **fair value** of the consideration received or receivable
- Guidance for recognising revenue over time may apply in different circumstances (e.g. construction contracts, service arrangements)
- **Limited guidance** on identifying performance obligations in a contract
- Capitalising contract **acquisition costs optional**
- Revenue **disclosures limited** to policy discussion

**New guidance**

- All guidance contained in a **single standard**
- **Control based model**. Risk and rewards is retained as indicator of transfer of control
- **Consideration measured** as the amount the entity expects to be entitled to
- **Specific criteria** provided to determine when a performance obligation is satisfied **over time**
- **Specific guidance** on identifying performance obligations in a contract
- Capitalising contract **acquisition costs mandatory**, if certain criteria met
- **Extensive** new disclosures
TFRS 15 - Key Concepts

TAS 18 Steps

1. Identify components
2. Allocate consideration
3. Recognize revenue

TFRS 15 Steps

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) satisfies a performance obligation
TFRS 15 – Example of Key Impacts on FS

“The impact of the new standard will vary by industry.”

**EXAMPLE**

<table>
<thead>
<tr>
<th>Step 2: Identify the performance obligations in the contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>“For some contracts, a customer <em>may obtain control</em> of a product even though the product remains in an entity’s physical possession. Instead, the <em>entity provides custodian services</em> to the customers…”</td>
</tr>
<tr>
<td><em>IFRS 15 – B80</em></td>
</tr>
</tbody>
</table>

**Current Practice**

<table>
<thead>
<tr>
<th>1 Performance Obligation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods / Products</td>
</tr>
</tbody>
</table>

**TFRS 15**

<table>
<thead>
<tr>
<th>2 Performance Obligations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods / Products</td>
</tr>
<tr>
<td>Custodian Services</td>
</tr>
</tbody>
</table>

**Key Areas to Focus**

- Revenue may be recognized at a point in time or over time
- Revenue recognition may be accelerated or deferred
- Revisions may be needed to tax planning, covenant compliance, and sales incentive plans
- Sales and contracting processes may be reconsidered
TFRS 16 – Leases
TFRS 16 - Key Concepts

- **Lessee**: All leases on Balance Sheet
- **Lessor**: Similar to TAS 17

**Lease exemption**

- **Short-term leases**: ≤ 12 Months
- **Leases of low-value items**

"Key Considerations"

A Lease?

- **Is there an identified asset?**
  - Yes → **Lessee obtains substantially all of the economic benefits**
    - Yes → Contract is or contain a lease
    - No → **Lessee directs the use of the asset**
      - Yes → Contract is or contain a lease
      - No → Contract does not contain a lease
  - No → Contract does not contain a lease
TFRS 16 – Example of Key Impacts on FS

“Lessee faces major impacts from TFRS 16”

Impact on Financial Ratios

1. On balance sheet for operating leases
2. Change of ratios

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**Lease Impacts on Balance Sheet**

- **Asset**
  - "Right-of-use" of underlying asset

- **Liability**
  - Obligation to make lease payments

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**Lease Impacts on Profit and Loss**

- **Lease expense**
  - Depreciation + Interest = Front-loaded total lease expense

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**Impact on Financial Ratios**

- **Balance sheet**
  - Total assets
  - Net assets
- **Profit/loss**
  - EBITDA
  - EPS (in early years)
- **Ratios**
  - Gearing
  - Interest Cover
  - Asset Turnover
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Finish
# Roadmap for Implementation of New Standards

## Roadmap for Successful TFRS 9, 15, 16 Implementation

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

### Understand new standards
- Understand impacts of TFRS 9, 15, and 16 and other related standards
- Identify key changes to the organization

### Assess the impacts and plan transition
- Evaluate the transition alternatives
- Review existing accounting procedures
- Identify and analyze accounting changes
- Identify mandatory and optional requirements
- Assess current systems, processes and resources

### Design, plan, and develop the right solutions
- Analyze gaps from impact assessments
- Evaluate adoption alternatives and transition approaches
- Identify changes required for the implementation of the specified TFRS
- Involve the specialists / consultants for effective transitions
- Communicate with the stakeholders

### Roll out and launch parallel run
- Implement the specified TFRS and transition strategies
- Monitor the implementation to ensure compliance with the standards
- Provide appropriate training and on-going support for the transitions

Date of Initial Application: We are ready!!

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"The Right decisions need to be made on when and how of the transition to the new Financial Reporting Standards"

<table>
<thead>
<tr>
<th>Transition Approaches</th>
<th>TFRS 9</th>
<th>TFRS 15</th>
<th>TFRS 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retrospective application, with some exemptions</td>
<td>✔</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retrospective application – no practical expedients</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Partial Retrospective application – with practical expedients</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Cumulative Effect</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Full Retrospective</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Modified Retrospective</td>
<td></td>
<td>✔</td>
<td></td>
</tr>
</tbody>
</table>

Some exemptions with prospective methods or special guidance

The Company needs to consider both qualitative and quantitative factors to be weighted in considering relative benefits, costs, and complexities of each transition.

Apply lease definition to
- All Contracts or
- Grandfather existing contracts that were previously a lease
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Questions for Audit Committee to consider

“If the Company does not have a well-transition plan, it may risk not having enough time to take appropriate actions”

1. What strategies are in place to ensure the effective transitions and does Audit Committee has a proper monitoring oversight plan?

2. What are the significant impacts from the assessment of new TFRSs on the Company’s financial position and performance?

3. Are there sufficient and appropriate resources and systems / processes to implement the transitions?

4. Are the stakeholders fully aware of the potential significant changes from specified TFRSs?

5. What are the decisions about the transition options and how will the new disclosure requirements be met?
Key Takeaways – it’s time to address "Next Steps for the Company to Consider"

- Develop transition plans and prepare for the parallel run
- Establish processes and procedures to support the new requirements
- Secure sufficient and appropriate resources to deliver the transitions within the timeframe
- Update IT Systems to support new methodology and increasingly complex accounting rules which embedded beyond finance functions
- Engage the specialists / advisors to assist in the transition implementations (from impacts assessments to implementations)
- Develop a process to support changes in key accounting interpretations and judgments and ensure they are appropriate and validated
Question & Answer

Anticipating tomorrow to deliver the best results today is our philosophy. Ongoing economic uncertainty, the evolving role of government in the marketplace, prospects of a more complex regulatory environment, combined with rapid changes in industries, huge strides in the advancement of digital technology and consumers’ rising expectations mean that to be at the forefront of each industry, companies must constantly anticipate change.

In such a fluid economic climate, we believe in anticipating and understanding the changes before they take place. We are ready for tomorrow, and our goal is to make our clients find the best solutions today.

Innovate.

At KPMG, we believe that despite the recent advances in technology, ultimately what still makes the difference to our clients is the experience of working with KPMG people. We work hard to develop and retain the best professionals in the field to best serve our clients. Our people understand both the local and global contexts of business and have a deep understanding of our clients’ diverse industries and the complex environment in which they operate.

This, combined with a conscious and calculated expansion of innovation and technology in our Audit, Tax and Advisory services, allows us to make the best decisions for our clients. We tailor our services and solutions to suit each client’s unique needs and businesses.

Deliver.

What we do is simple. We understand the business climate and industries, we know our clients and we deliver tailor-made services to best serve each client’s individual needs using experts in the field and innovative tools.

We are constantly expanding our capabilities as a firm, developing our people and innovating our tools to allow us to stay ahead. We bring long term added value through our real world experience and technical know-how. Our forward looking vision and deep expertise ultimately lead to one goal: Delivering real results to you.
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