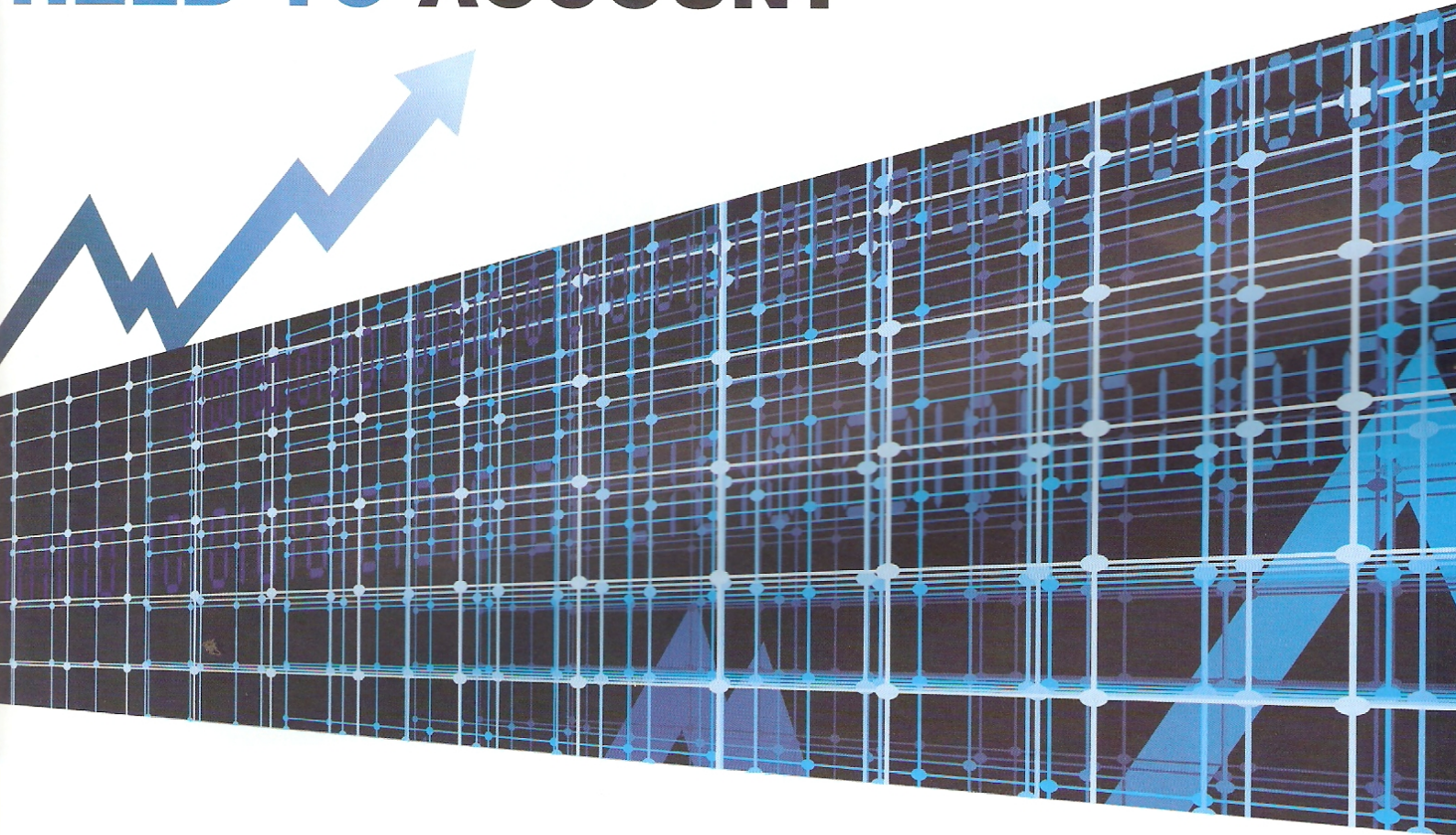


HELD TO ACCOUNT



The globalisation of the world economy has arguably caused a great deal of stress over the last few years, but the introduction of international standards of accounting practice should allow Thai companies to prosper. Greg Lowe writes.

New financial reporting standards for listed companies, being ushered in by the Stock Exchange of Thailand and regulators, will change the local reporting landscape bringing new levels of transparency and enabling investors to more accurately assess a firm's real value, local accounting experts says.

Locally-listed companies will have to switch from current reporting standards to the International Financial Reporting Standards (IFRS), which are drawn up by the International Accounting Standards Board, an independent accounting standard-setter

based in London. No hard date has been set for the transition, but the industry anticipates it will be completed between 2011-13.

What people are sure of is that by adopting IFRS investors will be able to make more qualified investment decisions. Making real world comparisons between a SET-listed firm and an overseas entity that uses IFRS will also be made easier.

TRANSPARENT REPORTING

As more developed countries shift towards the new standards developing nations will need to follow suit if they are to participate effectively in an increasingly competitive global market.

"The shift of Thai GAAP (Generally Accepted Accounting Principles) towards IFRS-based accounting standards will represent a significant change to the

financial reporting landscape in Thailand," says Mike Fiore, a partner who deals with IFRS at Deloitte Touche Tohmatsu Jaiyos.

"IFRS is a principles-based accounting standard, not rules-based; which means there is less detailed guidance on how to account for transactions and relies more on management judgment to interpret the principles.

"These management judgments will need to be disclosed in a company's financial statements, which should provide a greater level of transparency to the users of the financial statements."

The greater use of narrative explanations of a company's figures and operational position will also see the size of corporate reports expand significantly from their current format due to the increased depth of information – a factor that will ultimately make the financial reports more useful tools for investors.

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- SET spokeswoman.

"I expect a higher quality of financial reporting [as a result of IFRS]," says Jonathan Fryer, assistant director responsible for financial accounting and accounting consultancy services at Mazars Thailand. "Financial statements that are closer to the 'real' value of the company, better cross-border comparability, increased access to capital markets around the world, more transparent reporting due to the additional disclosure providing investors with more information."

THOROUGH PREPARATION

Just how much of an impact implementing the new procedures will have on a company, and the associated costs, depends on a given firm's operational complexity and how well it has kept its books in the past.

Many industries, such as oil and gas, have their own accounting practices and standards. This, and the fact that numerous inconsistent accounting policies have arisen locally in circumstances where no Thai accounting standards have

existed, may make the transition arduous for some entities, says Fryer.

The SET and other industry bodies, such as the Listed Companies Association, are running capacity-building programmes to help locally listed firms cope with the switch to IFRS.

"Studies on the impact of using IFRS for financial statements reveal that the impact differs with each company," says an SET spokeswoman. "Listed companies that can manage changes well must prepare themselves by studying IFRS requirements, its impacts and prepare systems to support changes.

"As far as we know large listed companies, for example, PTT Group and SCC Group, place great importance on this matter and have set up teams to study and prepare for the changes.


"The Listed Companies Association had also held 'knowledge sharing' workshops for listed firms to listen to PTT's experiences in preparing for the application of IFRS."

THE COST OF CHANGE

While the SET and the Federation of Accounting Professionals are helping to bring local accountants up to speed with IFRS, there are currently not enough accountants who are fully trained in the new standards. This will see many firms incur short- and medium-term costs related to outsourcing the reporting to appropriately-qualified accountancy and auditing service providers, plus longer-term increased auditing fees.

In terms of judging what this cost might be, Fiore refers to the most widely used metric put together by the Institute of Chartered Accountants in England and Wales in 2005 after European Union companies switched to IFRS.

"Those with annual revenue between € 500 million (about THB 23.1 billion) and € 5 billion euros spent 0.05% of their revenue in their first year of transitioning to IFRS and experienced on-going costs of approximately 0.01% of their revenue," he says.



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While there will be a steep learning curve, and capital-intensive firms and those operating in the financial services and banking sector will probably incur the highest transition costs, Thai businesses will not have to reinvent the wheel.

"Thailand is in the fortunate position of being able to draw upon the knowledge and experience of its regional neighbours such as Singapore and Hong Kong, who have already been through the process and learnt the lessons," says Fryer.

IMPROVED INVESTMENT

The most important issue for any company that is unsure if it will be affected by the change to IFRS is to find

out now before the transition gathers pace. This will also require the SET and other relevant bodies to provide greater clarity on the matter.

"There are still many questions that remain unanswered on the road to convergence," says Fryer. "Final deadlines for convergence are still not agreed, the set of standards that will be applicable has not been finalised and there is no clarity as to how the ongoing revisions to IFRS will be implemented here."

Smaller and non-listed firms will be particularly confused as to whether they too should adopt IFRS.

"Thailand should be looking at the example made by, say, South Africa that

has already adopted the IFRS for Small and Medium Size Entities which is a less technically demanding set of accounting principles but would certainly provide a robust accounting framework for Thai companies."

Despite any teething problems relating to the use of the new standards, the long-term benefits will be worth the changes, says the SET spokeswoman.

"Using IFRS on financial statements of listed companies will allow investors to compare operating performances across the borders, encouraging more international investment," she says. "It is an important factor in building investors' confidence in a highly competitive global capital market."