



สภาวิชาชีพบัญชี ในพระบรมราชูปถัมภ์

FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

September 10, 2018

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Practice Statement 1 : Management Commentary project (Survey of national practice and reporting requirements as part of Management Commentary project)

The Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to response on *IFRS Practice Statement 1 : Management Commentary project (Survey of national practice and reporting requirements as part of Management Commentary project)*. As Thai SEC, the Jurisdiction, has issued the Management Discussion and Analysis (MD&A) guidance since 2014 with some minor revisions after that, we therefore response the survey based on such guidance as described in the attachment.

Please find our responses to the specific survey raised in *IFRS Practice Statement 1 : Management Commentary project (Survey of national practice and reporting requirements as part of Management Commentary project)* in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions of Thailand.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Somchai Supattarakul
Chairman of Thai Accounting Standards Board
Federation of Accounting Professions of Thailand
Bangkok, Thailand



IFRS Practice Statement 1 Management Commentary

1. Reporting environment

a. Please identify legislation, regulations and non-mandatory guidance that companies apply in preparing management commentary in your jurisdiction.

FAP : The Securities and Exchange Act (“SEA”) stipulates that an issuer of securities on an annual basis shall prepare annual report according to Form 56-2 and annual registration statements according to Form 56-1. All of which shall pertain to rules, conditions, procedures, and disclosures requirements as specified in the SEC’s Notification Tor. Chor. 44/2556. Form 56-1 is stipulated to allow investors to monitor and follow through significant information of the issuer which have occurred throughout the year. SEC and SET also ensure that the investors receive information on a timely basis* to reflect the current status of the company. One of the required information in Form 56-1 is Management Discussion and Analysis (MD&A). The Securities and Exchange Commission, Thailand (“SEC Thailand”) has enhanced the high-quality disclosure of listed companies by providing non-mandatory guidance for both Form 56-1 and for Management Discussion and Analysis (MD&A) since 2013, Therefore, the Form 56-1 that includes MD&A can be categorized as management commentary.

(*) Listed companies have to submit those information within 3 months as from the end of the accounting period.

b. Are the legislation, regulations or non-mandatory guidance identified in 1(a) currently being reviewed or updated? If so, what areas are being reviewed or updated?

FAP : During the year 2016, the SEC Thailand has launched an additional guideline and example for the disclosure of expenses on research and development (R&D expenses) of technologies and innovations in MD&A. As Thai government has issued measures to encourage the private sectors to increase proportional R&D expenses of technologies and innovations, such disclosures will promote competitiveness and allow the government to monitor initiatives and activities taken by listed companies. In this guidance, a company should emphasize the overall description of the activities related to R&D to give investors a quick overview of such activities conducted by the company, subsidiaries and associate companies. Additionally, if the company has a developmental plan or expects a material change that may affect its business operation or investors’ decision making, a description of such matters should also be provided.



c. Please describe whether and how IFRS Practice Statement 1 Management Commentary (Practice Statement) is applied in your jurisdiction. In particular, if the Practice Statement is required or permitted to be applied in your jurisdiction in specific circumstances, please describe those circumstances. If the Practice Statement has been used in developing national requirements or guidance, please summarise the main differences between the Practice Statement and the national requirements or guidance.

FAP : In Thailand, there is no requirement to apply IFRS Practice Statement 1 Management Commentary. However, the listed companies are required to comply with Securities and Exchange Act and SEC's notifications which require listed companies to publicize the annual registration statement (Form 56-1) on a timely basis. The disclosure requirements for Form 56-1 are based on and contain similar framework, principles, and most of the elements as the IFRS Practice Statement 1. Although there are some minor differences between the IFRS Practice Statement 1 and our national guidance (for example, the MD& A guidance has no discussion on qualitative characteristics of useful information but instead describes specifically the suggested information to present.), both the IFRS Practice Statement and the national guidance have very similar objective which is to assist management in presenting useful information that relates to financial statements.

2. Principles and objectives

a. Please describe the objective and the intended users of management commentary in your jurisdiction.

FAP : Form 56-1 is stipulated to allow investors to monitor and keep track of listed companies' significant information that occurred throughout the year. The Form enables investors to access not only significant financial figures presented in the financial statements but also qualitative information which is deemed essential for their investment decision making. The intended users are existing and potential investors, lenders, other creditors, and any related stakeholders of the listed companies.

b. Please summarise the principles (including those related to materiality judgements) that companies apply in preparing management commentary in your jurisdiction.

FAP : The Form 56-1's main principle is to ensure accurate and sufficient material information reflecting the current status of the company used in investor's decision-making process that does not contain misleading information. MD&A reports are required to be prepared according to management views and contain significant information in the following areas (as a minimum):

- Business Overview (i.e. significant changes and development on shareholding structure, management, or business operation)



- Organization and management structure, including information on directors and executives (i.e. meeting attendance and remuneration)
- Corporate Governance
- Corporate Social Responsibilities
- Related-party transactions
- Internal Control
- Risk Management
- Management Discussion and Analysis (MD&A)
 - Business Overview
 - Operating performance and ability to generate profits
 - Ability in managing assets used in business operation
 - Liquidity and adequacy of investment capital
 - Contingent liabilities and management of off-balance sheet transactions
 - Factors / Events that have potential impact on the financial position and future business operations

3. Current year financial analysis and forward-looking statements

Please identify and summarise requirements and guidance that companies apply in providing the following information in management commentary:

a.) discussion of the current year financial performance and financial position;

FAP : The MD&A guidance provides guidelines to report performance and financial positions as follows;

1. Business Overview (analysis of internal and external factors in various aspects which may affect company's strategic plan and operation, and critical accounting estimates)
2. Results of operations: operating performance and ability to generate profits (analysis of segment performance and key financial ratio comparing to appropriate benchmarks)
3. Ability in managing assets used in business operation (analysis of main components used in operation, causes of changes, and key financial ratios)
4. Liquidity and adequacy of investment capital;
 - Sources of funds and use of funds (analysis of changes in company's capital structure, changes in source and use of funds)
 - Capital expenditures (analysis of investment objective, expected return and timing of payment)
 - Sufficiency of liquidity including projection of the use of funds
 - Ability to obtain additional source of funds
 - Factors that might affect credit rating



- Ability to comply with covenant and important obligations
5. Contingent liabilities and off-balance sheet transactions (analysis of contractual obligations in various aspects e.g. obligations from finance and operating lease)

b.) so-called ‘non-IFRS measures’ (for example, underlying earnings) and other financial analysis (for example, pro-forma financial information);

FAP : The regulations and related guidance has no restrictions on companies providing ‘non-IFRS measures’ and other financial analysis. However, the Form 56-1’s main principle is to ensure accurate and sufficient information reflecting the current status of the company used in investor’s decision-making process, which does not contain misleading information.

c.) financial and operational forward-looking statements (for example, disclosure of underlying assumptions about the future); and

FAP : The guidance suggests that a listed company explain factors or events that may significantly affect the company’s financial status or operating results in the future (forward looking), including both external factors (e.g., economic trends and changes in the market or industry) and internal factors (e.g., the company’s policies, strategies, and management, changes in business agreements that may affect its operation, and other factors) to enable investors to understand and accurately analyze the directions of the company’s future operations. In case where the company is carrying out a project or a research and development activity that will affect its operating results or financial status in the near future (approximately within a year), the company should describe the details of such project or R&D activity, such as the nature of the project, new products, or product improvement, progress of the project, and its potential effects on the company’s operating results and financial status.

d.) comparison of the current-year financial performance to any previously made forward-looking statements.

FAP : In the case where the company has previously presented its forward-looking results of operation and financial status and the actual results deviated from the estimated figures of revenue or net profits for more than 20%, the company shall disclose and explain such differences.



4. Operational information

a.) Please identify any specific subject matter areas that companies are required or expected to discuss in management commentary (for example, environment, social responsibility or customer-related disclosures).

FAP : The MD&A report should provide information on major factors influencing future financial positions and performances. Information about environment or social responsibility is required to be disclosed either in Form 56-1 or through reference to a separate Corporate Social Responsibility report.

b.) Please identify and summarise requirements and guidance that companies apply in identifying other operational matters not covered in 4(a) for discussion in management commentary.

FAP : Listed companies are also required to disclose information on the anti-corruption efforts of the company and the subsidiaries either directly in Form 56-1 or through reference to a separate report.

c.) Please identify and summarise requirements and guidance that companies apply in providing the qualitative and quantitative information about matters identified in 4(a) and 4(b).

FAP : Since those are non-financial information, the companies normally provide only qualitative information about CSR report and anti-corruption information.

For CSR report, the companies should disclose at least the following information:

- 1) Overall policies
- 2) Action and preparation of a report explaining how the company set its framework
- 3) Business operation that may affect the company's social responsibility, if any
- 4) Initiatives towards the society or environment

For engagement in anti-corruption activities, the company should discuss the Board of Directors' resolutions with respect to the policy of the company and its subsidiaries not to be involved in corruption, whether by requesting, accepting, or giving bribes. The company may explain by specifying the scope of its policy.



5. Business model, strategy, external environment and risks

a.) Please identify and summarise requirements and guidance that companies apply in determining the content and the level of detail provided in management commentary in relation to:

- i. the company's business model and strategy; and
- ii. factors and developments in the external environment.

FAP: As required by Form 56-1, the company shall provide an overview of the vision, objectives, goals, or operational strategies of the company or group of companies as determined by its board of directors and provide details to the extent that the company thinks are sufficient to enable investors to understand and use such information as a guideline for monitoring the company's business directions in the future. Additionally, the company shall explain the competition in the industry over the past year, and trends and possible competition in the future, for example, by indicating an approximate number of competitors and the size of the company, compared to the sizes of its competitors, describing the company's competitiveness and providing a list of competitors, etc.

b.) Please identify and summarise requirements and guidance that companies apply in:

- i. identifying key risks for discussion in management commentary; and
- ii. determining what information to provide in relation to each of those risks.

FAP: As required by Form 56-1, the company shall indicate risk factors including risk to the business operation and risk to investment by securities holders. When analyzing risk factors, the company should not provide merely general factual statements, such as stating that its operating results may vary, depending on the economic condition. Instead, the company should provide clear analysis. The company should also explain the nature and causes of risks, possible outcomes (in figures if any outcomes can be estimated in figures), and trends or possibilities of such risks.

c.) Please identify and summarise requirements and guidance that companies apply in discussing progress in and potential implications for future financial performance of:

- i. achieving the strategic objectives identified in 5(a); and
- ii. managing the key risks identified in 5(b)(i).

FAP: If the company chooses to disclose its goals, such goals must be considered to be practically possible. Operational strategies and actions to be taken by the company in order to achieve its objectives and goals should also be included so that investors understand the company's way of operation. In addition, progress in the goals and reasons for failure to achieve the goals of the previous year should be explained.



The guidance indicates that if the company has any particular measures that practically and significantly lessen the risks, those measures may also be described. Even for risks that cannot be managed, disclosure of such risks will allow investors to make decisions when they are well informed and thus protect the management from lawsuits. In addition, the MD& A guidance on the information about major factors influencing future financial positions and performances can be helpful to the companies to provide the relating information for i and ii.

6. Other matters

Are there matters not covered in the questions 1-5 that companies are required or expected to discuss in management commentary?

FAP: Currently, there are no additional matters expected to be discussed in the management commentary.