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

February 11, 2016

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

Dear Mr. Hoogervorst,

Comment Letter on ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The Federation of Accounting Professions of Thailand would like to show our appreciation on the opportunity to comment on ***ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts***. Overall, we agree these addressed concerns and support the overlay approach and a temporary exemption from applying IFRS 9, with minor cautions and concerns. We also agree that these proposed methods should be optional. We however note that the temporary exemption from applying IFRS 9 should be allowed until the new insurance contracts Standard become effective.

Please find our responses to the specific questions raised in ***ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*** in an attachment. We believe that this proposed amendment will help the practitioners in the future and that our comment letter 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.Vorasak Tummanond
Chair of Thai Accounting Standards Board
Federation of Accounting Professions of Thailand
Bangkok, Thailand

Copied to:

1) Chairman, Accounting Standard-Setting Committee of Thailand
2) Chairman, Subcommittee on Monitoring of International Financial Reporting Standards
3) President, Federation of Accounting Professions of Thailand

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Exposure Draft ED/2015/11 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

Question 1—Addressing the concerns raised
Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard: (a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16). (b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18). (c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21). The proposals in this Exposure Draft are designed to address these concerns. Do you agree that the IASB should seek to address these concerns? Why or why not?

FAP: We agree that IASB should seek to address these concerns as IFRS 9 may increase the volatility in profit or loss due to the reclassification of the asset and making the financial statements hard to compare on a year-to-year basis. IASB should address the above concerns as the changes and the different effective dates of the two standards may have significant impact to financial statements.

Question 2—Proposing both an overlay approach and a temporary exemption from applying IFRS 9
The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4: (a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that: (i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but (ii) would not have been so measured applying IAS 39 (the ‘overlay approach’) (see paragraphs BC24–BC25); (b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the ‘temporary exemption from applying IFRS 9’) (see paragraphs BC26–BC31). Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not? If you consider that only one of the proposed amendments is needed, please explain which and why.

FAP: We support the proposed methods to address the concerns described in paragraphs BC9–BC21 since the overlay approach will help to remove from profit or loss any increased volatility in a transparent and consistent manner while maximising comparability. Also, we would like IASB to specify that once the temporary exemption from applying IFRS 9 or the overlay approach is used at below the reporting entity level e.g. a subsidiary of the reporting entity, the reporting entity should also be eligible to apply the overlay approach.

The temporary exemption or the deferral approach will provide an option for entities whose predominant activity are issuing insurance contracts, and likely to be most affected by the different effective dates of IFRS 4 and IFRS 9, to defer application of IFRS 9 and help reduce the problem of comparability for users of financial statements. However, we concerns on how predominant activity of the entity is assessed, although IASB proposed that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including any liabilities arising from contracts within the scope of IFRS 4) rather than by reference to its income and expenses. Caution should be taken on how predominant activity of the entity is assessed and entity to consider all relevant facts and circumstances when assessing whether insurance activities are predominant for an entity, rather than a simple comparison of liabilities arising from contracts within the scope of IFRS 4 to total liabilities.

Question 3—The overlay approach
Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach. (a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied. Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why? (b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach. Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why? (c) Do you have any further comments on the overlay approach?

FAP:(a) We agree with IASB's proposal on the assets to which the overlay approach can be applied(financial assets that are classified at FVPL in their entirety applying IFRS 9 but that would not have been so measured applying IAS 39, and financial assets that are designated as relating to contracts that are within the scope of IFRS 4).

(b) We agree with IASB's proposal that entities to determine the presentation that is most relevant to an understanding of the entity's financial performance according to the general principle in IAS 1 Presentation of Financial Statements; hence the amount reclassified from profit or loss to OCI should either (1) be shown as a separate line item in the statement of profit or loss, OCI or (2) be disclosed in the notes to the financial statements, if it is not separately presented on the face of the statement of profit or loss. This would enable users of financial statements to calculate what profit or loss before tax would have been without the overlay adjustment and consequently to compare profit or loss before tax on a consistent basis regardless of whether the entity applies the overlay approach.

(c) No further comments.

Question 4—The temporary exemption from applying IFRS 9
As described in paragraphs 20A and BC58–BC60 the Exposure Draft proposes that only entities whose predominant activity is issuing contracts within the scope of IFRS 4 can qualify for the temporary exemption from applying IFRS 9. (a) Do you agree that eligibility for the temporary exemption from applying IFRS 9 should be based on whether the entity's predominant activity is issuing contracts within the scope of IFRS 4? Why or why not? If not, what do you propose instead and why? As described in paragraphs 20C and BC62–BC66, the Exposure Draft proposes that an entity would determine whether its predominant activity is issuing contracts within the scope of IFRS 4 by comparing the carrying amount of its liabilities arising from contracts within the scope of IFRS 4 with the total carrying amount of its liabilities (including liabilities arising from contracts within the scope of IFRS 4). (b) Do you agree that an entity should assess its predominant activity in this way? Why or why not? If you believe predominance should be assessed differently, please describe the approach you would propose and why. Paragraphs BC55–BC57 explain the IASB's proposal that an entity would assess the predominant activity of the reporting entity as a whole (ie assessment at the reporting entity level). (c) Do you agree with the proposal that an entity would assess its predominant activity at the reporting entity level? Why or why not? If not, what do you propose instead and why?

FAP:(a) and (b) Refer to our comment in Question 1, we agreed with the proposed temporary exemption or the deferral method, however, caution should be taken on how predominant activity of the entity is assessed and entity to consider all relevant facts and circumstances when assessing whether insurance activities are predominant for an entity, rather than a simple comparison of liabilities arising from contracts within the scope of IFRS 4 to total liabilities.

(c) We support IASB's proposal that an entity would assess its predominant activity at the reporting entity level because it means that such a reporting entity would apply only one Standard for accounting for financial instruments—IFRS 9 or IAS 39. It is simpler to apply as compared to the below reporting entity level approach which may require the financial statement preparer to apply two financial instrument standards simultaneously as well as causing confusion for the financial statements users.

Question 5—Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?
As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied. (a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not? (b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

FAP: (a) We consider IASB's proposal to provide options as useful for the transition and adoption process of the standards from the perspective of financial statement preparers, however, comparability within the sector from the perspective of financial statements users is also important so we urged IASB to consider the overall feedback before making final decision.

(b) We agree with IASB's proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied. We understand that the overlay approach and the temporary exemption optional could reduce comparability between entities, however, this concern would be mitigated by the disclosure requirements proposed in the Exposure Draft. In addition, we understand that any reduction in comparability would only exist for a short period of time until the standards become effective.

Question 6— Expiry date for the temporary exemption from applying IFRS 9
Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021. Do you agree that the temporary exemption should have an expiry date? Why or why not? Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expirydate would you propose and why?

FAP: We would like to provide a different view of this topic. We believe it is more flexible and more beneficial for the insurance entities and financial statements users if the temporary exemption from applying IFRS 9 is allowed until the new insurance contracts Standard become effective.