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

January 25, 2022

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Mr. Hoogervorst,

Response on IFRS Standards Request for Information - Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement

The Thailand Federation of Accounting Professions would like to show our appreciation on the opportunity to response on **IFRS Standards Request for Information - Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement.** Overall, we believe that the concept of IFRS9 works as the Board intended. However, we raise some concerns for both accounting and non-accounting perspectives as well as the costs of the application from the implementation.

Please find our responses to the specific survey raised in **IFRS Standards Request for Information - Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement** 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 Thailand Federation of Accounting Professions.

The Thailand 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 Toommanon
Chairman of Thai Accounting Standards Board
Thailand Federation of Accounting Professions
Bangkok, Thailand

133 ถนนสุขุมวิท 21(อโศก) แขวงคลองเตยเหนือ
เขตวัฒนา กรุงเทพมหานคร 10110
โทร : 0-2685-2500
http://www.tfac.or.th

133 SUKHUMVIT 21 (ASOK) ROAD, KLONGTOEI NUA,
WATTHANA DISTRICT, BANGKOK 10110 THAILAND
TEL: 0-2685-2500
http://www.tfac.or.th

IFRS Standards Request for Information - Post-implementation Review IFRS 9 Financial Instruments Classification and Measurement

Question 1—Classification and measurement
Do the classification and measurement requirements in IFRS 9: (a) enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and how the entity expects to manage them? Why or why not? (b) result in an entity providing useful information to the users of the financial statements about the amount, timing and uncertainty of future cash flows Why or why not? Please provide information about the effects of the classification and measurement changes introduced by IFRS 9, including the ongoing costs and benefits in preparing, auditing, enforcing or using information about financial instruments. This question aims to help the Board understand respondents' overall views and experiences relating to the IFRS 9 classification and measurement requirements. Sections 2–8 seek more detailed information on the specific requirements.

TFAC:

The classification and measurement requirements in IFRS 9 enable an entity to align the measurement of financial assets with the cash flow characteristics of the assets and the business model as IFRS 9 criteria is more principle-based. It results in an entity providing useful information to the users of the financial statements regarding the amount, timing and uncertainty of future cash flows. Furthermore, the disclosure through the note to financial statements also provides the users with useful information to understand impact of each classification in financial statements.

However, to apply IFRS 9 classification and measurement requirements, costs were higher during the period of first-time adoption due to the system and personnel preparation. Because it requires extensive involvement across the organisation, both from accounting side and business side, so the training on accounting matters is needed. Moreover, the implementation of systems to handle for EIR calculation and the requirements on modification of cash flows require extensive data and there are still some system limitations to cover all business events.

Regarding to the impact, it is not material as major financial assets have specific cash flow schedule, e.g. loan, and they are still measured at amortised cost after the implementation of IFRS 9. Also, mostly the investments previously classified as "Available for Sale" are changed to "Fair Value through Other Comprehensive Income". Overall most of the changes are from the non-marketable equity securities previously measured at cost that have to be reclassified to be measured at fair value.

Question 2—Business model for managing financial assets
(a) Is the business model assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure financial assets based on the business model assessment achieves the Board's objective of entities providing users of financial statements with useful information about how an entity manages its financial assets to generate cash flows. (b) Can the business model assessment be applied consistently? Why or why not? Please explain whether the distinction between the different business models in IFRS 9 is clear and whether the application guidance on the evidence an entity considers in determining the business model is sufficient. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. (c) Are there any unexpected effects arising from the business model assessment? How significant are these effects? Please explain the costs and benefits of the business model assessment, considering any financial reporting or operational effects for preparers of financial statements, users of financial statements, auditors or regulators. In responding to (a)–(c), please include information about reclassification of financial assets (see Spotlight 2).

TFAC:

(a) The business model assessment works as the Board intended. The concept is more flexible especially for the "held to collect" business model, so the occurrence of reclassification for financial assets is limited as intended. However, additional application guidance on complex financial instruments could be useful to help enhancing consistency in applying business model assessment.

(b) For most cases, business model assessment generally works well in practice and financial assets can be clearly classified according to the given criteria in IFRS 9 . However, there are some areas of the assessment that require judgement given the lack of bright lines in the standard. For example, there could likely be inconsistency of classification between entities due to their specific policies regarding the "frequency and value" of sales for the held to collect business model. Furthermore, even IFRS9 clearly identified in paragraph B 4.1.2 that level of aggregation can be applied in classification and measurement,

it is still debatable on whether fair valuation approach, i.e. at clean or at dirty price, can be varied by "different sub-business objective" of debt instruments classified under the same IFRS 9 classification. These issues require judgement call where will be very helpful if application guidance is added.

(c) The unexpected effect of the limited occasions for reclassification is that the accounting for financial assets may not reflect the current business model. According to the IFRS 9 requirements, changes in management's intention or an inability to achieve the intention may not be considered as changes in business model that result in reclassification of financial assets. Thus, to add more clarification on situations that meet the reclassification criteria could be helpful. For instance, if a particular market of financial assets has disappeared or if the management have changed their intention with supportive and valid evidence of transactions that have already occurred, these cases should be able to qualify for reclassification to reflect the changing situation according to the new business model.

Question 3—Contractual cash flow characteristics
(a) Is the cash flow characteristics assessment working as the Board intended? Why or why not? Please explain whether requiring entities to classify and measure a financial asset considering the asset's cash flow characteristics achieves the Board's objective of entities providing users of financial statements with useful information about the amount, timing and uncertainty of future cash flows. If, in your view, useful information could be provided about a financial asset with cash flows that are not SPPI applying IFRS 9 (that is, an asset that is required to be measured at fair value through profit or loss applying IFRS 9) by applying a different measurement approach (that is, using amortised cost or fair value through OCI) please explain: (i) why the asset is required to be measured at fair value through profit or loss (that is, why, applying IFRS 9, the entity concludes that the asset has cash flows that are not SPPI). (ii) which measurement approach you think could provide useful information about the asset and why, including an explanation of how that approach would apply. For example, please explain how you would apply the amortised cost measurement requirements to the asset (in particular, if cash flows are subject to variability other than credit risk). (See Section 7 for more questions about applying the effective interest method.) (b) Can the cash flow characteristics assessment be applied consistently? Why or why not? Please explain whether the requirements are clear and comprehensive enough to enable the assessment to be applied in a consistent manner to all financial assets within the scope of IFRS 9 (including financial assets with new product features such as sustainability-linked features). If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. (c) Are there any unexpected effects arising from the cash flow characteristics assessment? How significant are these effects? Please explain the costs and benefits of the contractual cash flow assessment, considering any financial reporting effects or operational effects for preparers of financial statements, users of financial statements, auditors or regulators. In responding to (a)–(c), please include information about financial instruments with sustainability-linked features (see Spotlight 3.1) and contractually linked instruments (see Spotlight 3.2).

TFAC:

(a) The cash flow characteristics assessment works as the Board intended. However, additional guidance on assessment of cash flow characteristics would be useful and the following topics are presented for the Board's consideration as they are issues noted from applying SPPI assessment.

Sustainability linked features and SPPI assessment: IFRS 9 provides principle-based requirements as well as some examples for SPPI assessment. Those requirements are applicable and practically implemented for the basic or traditional products. However, nowadays there are a great deal of new product initiatives which rapidly arise in the financial markets (e.g. sustainability-linked features in financial assets). Customers also increasingly request for customised products; as a result, SPPI assessment is more difficult and requires more judgmental decision whether the contractual cash flows are solely payments of principal and interest or not. Some have argued that the ESG-linked feature is a part of profit margin. To launch the deal, sale person will ensure that the deal is financially feasible and profit margin is the component used to strike the balance between economic return and deal competitiveness. Moreover, it is concerned that if the conclusion comes out with the failed SPPI category, the FVTPL measurement may be challenging due to lack of availability of market value. Thus, more guidance on how to apply the SPPI assessment to the instrument would be useful to avoid inconsistency in practice.

Debt-equity classification condition of IAS3 2 and SPPI assessment: It seems that the SPPI test is overruled by the debt-equity classification condition of IAS3 2 once the instruments contain the puttable feature. Currently, mutual fund units with puttable feature are classified as FVTPL, looking from the right to put the investment to the fund. However, to reflect true risk of the investments, it will be more relevant to look into the cash flow pattern of underlying assets which is clearly stated in the fact sheet. To clarify, in case that almost all of the asset composition of a fund is debt instruments or equity instrument, the classification and measurement choice of debt-like or equity-like should be provided accordingly.

(b) In some circumstances, the cash flow characteristics assessment may not be applied consistently. For example, in case of callable bonds, some entities may consider that the prepayment feature of callable bonds may be the trigger that makes the instruments fail SPPI assessment, but some may not.

(c) There is a view from business side that SPPI assessment creates difficulties in business operations since it requires awareness from business teams; additionally from accounting teams; to get understanding on the accounting criteria. Also, due to complexity of accounting concept, accounting treatment could occasionally affect or shape business decisions. While, to comply with the standards, auditors and regulators need to ensure the consistency of application and reduce cherry picking accounting treatment. Principle-based accounting requirements may however be quite difficult to ensure conformity.

Question 4—Equity instruments and other comprehensive income
(a) Is the option to present fair value changes on investments in equity instruments in OCI working as the Board intended? Why or why not? Please explain whether the information about investments in equity instruments prepared applying IFRS 9 is useful to users of financial statements (considering both (i) equity instruments measured at fair value through profit and loss; and (ii) equity instruments to which the OCI presentation option has been applied). For equity instruments to which the OCI presentation option has been applied, please explain whether information about those investments is useful considering the types of investments for which the Board intended the option to apply, the prohibition from recycling gains and losses on disposal and the disclosures required by IFRS 7. (b) For what equity instruments do entities elect to present fair value changes in OCI? Please explain the characteristics of these equity instruments, an entity's reason for choosing to use the option for those instruments, and what proportion of the entity's equity investment portfolio comprises those instruments. (c) Are there any unexpected effects arising from the option to present fair value changes on investments in equity instruments in OCI? How significant are these effects? Please explain whether the requirements introduced by IFRS 9 had any effects on entities' investment decisions. If yes, why, how and to what extent? Please provide any available evidence supporting your response which will enable the Board to understand the context and significance of the effects. In responding to (a)–(c), please include information about recycling of gains and losses (see Spotlight 4).

TFAC:

(a) Generally, the option to present fair value changes on investments in equity instruments in OCI works as the Board intended. Though non-recycling requirement does not reflect the return of the investment on sale, it helps avoid an effect from gain/loss on sales of FVOCI investments on profit or loss that could mislead the core-business performance presentation.

(b) FVOCI option for investment in equity instruments is selected when the purpose of investment is not for trading intent, e.g. strategic investments, long-term investments and non-listed equities. FVOCI is a solution for this case because gain or loss on these investments should not affect the core-business

performance presented in profit or loss and the fair value change of these investment should be presented in other comprehensive income which is for non-core business or unusual items.

(c) It is noted that strategic equity instruments measured at fair value through other comprehensive income (FVOCI) requires effort and cost that could outweigh benefit because investors have no influence in the investees and most of the time have limited access to information necessary for fair value measurement. Additionally, it is practically difficult to justify the valuation models or techniques as well as key assumptions for fair value measurement particularly for start-up and newly developed businesses. As a result, it will be useful if an alternative approach is provided as a practical expedient, such as using cost (less impairment) or net asset value as a proxy of fair value.

Question 5— Financial liabilities and own credit
(a) Are the requirements for presenting the effects of own credit in OCI working as the Board intended? Why or why not? Please explain whether the requirements, including the related disclosure requirements, achieved the Board's objective, in particular, whether the requirements capture the appropriate population of financial liabilities. (b) Are there any other matters relating to financial liabilities that you think the Board should consider as part of this post-implementation review (apart from modifications, which are discussed in Section 6)? Please explain the matter and why it relates to the assessments the Board makes in a post-implementation review.

TFAC:

(a) For non-trading liabilities measured at FVTPL, presenting own credit risk movements in OCI provides more useful information than presenting the amount in profit or loss.

(b) In Thailand, there are limited entities that designate financial liabilities as FVTPL and the effects of own credit are considered insignificant.

Question 6— Modifications to contractual cash flows
(a) Are the requirements for modifications to contractual cash flows working as the Board intended? Why or why not? Please explain what changes you consider to be modifications of a financial asset for the purpose of applying paragraph 5.4.3 of IFRS 9 and as a modification of a financial liability for the purpose of applying paragraph 3.3.2 of IFRS 9. Does the application of those paragraphs, and the disclosure requirements related to modifications, result in useful information for users of financial statements? (b) Can the requirements for modifications to contractual cash flows be applied consistently? Why or why not? Please explain whether the requirements enable entities to assess in a consistent manner whether a financial asset or a financial liability is modified and whether a modification results in derecognition. Have the requirements been applied differently to financial assets and financial liabilities? If diversity in practice exists, please explain how pervasive the diversity is and its effects on entities' financial statements.

TFAC:

(a) The requirements for modifications to contractual cash flows work as the Board intended; however, the requirements for modifications to contractual cash flows could be applied inconsistently due to significant judgement required. Additional guidance on contractual cash flow restructuring such as payment holiday, extended maturity and decreasing interest rate shall be useful to enhance consistency in application.

Another issue to consider is related to the calculation of revised carrying amount of modified financial assets using original EIR. The approach helps users of financial statements understand that there is a revision in the estimated timing or the amount of cash flows as the entity incur gain or loss from the modification. However, in some cases, the current EIR might be considered as it can better reflect the new cash flows according to the revised conditions of an instrument. For instance, an entity may revise the interest rate of a loan for a customer so that it is comparable to the current market condition without any favorable condition or indicator of increase in credit risk. In this case, the current EIR might be considered to better reflect the new cash flows going forward, resulting from the revised interest rate and presenting in profit or loss of the entity.

(b) Based on the existing requirements for modifications to contractual cash flows, the criteria to determine whether the modification will result in derecognition or not is practically difficult to apply. Adding quantitative benchmark to consider for derecognition would help enhance the consistency of application. In addition, there are limited guidelines for modification that leads to derecognition of financial assets with credit-impaired and purchased or originated credit impaired; for instance, whether the re-recognised financial assets can be treated like the new initially recognised ones. Also, it is recommended to add requirements of disclosure in IFRS 7 relating to modification and derecognition in order to provide more information to the users of financial statements.

Question 7—Amortised cost and the effective interest method
(a) Is the effective interest method working as the Board intended? Why or why not? Please explain whether applying the requirements results in useful information for users of financial statements about the amount, timing and uncertainty of future cash flows of the financial instruments that are measured applying the effective interest method. (b) Can the effective interest method be applied consistently? Why or why not? Please explain the types of changes in contractual cash flows for which entities apply paragraph B5.4.5 of IFRS 9 or paragraph B5.4.6 of IFRS 9 (the 'catch-up adjustment') and whether there is diversity in practice in determining when those paragraphs apply. Please also explain the line item in profit or loss in which the catch-up adjustments are presented and how significant these adjustments typically are. If diversity in practice exists, please explain how pervasive the diversity is and its effect on entities' financial statements. In responding to questions (a)–(b), please include information about interest rates subject to conditions and estimating future cash flows (see Spotlight 7).

TFAC:

(a) The effective interest method works as the Board intended; however, it is noted that EIR might not reflect the real performance as it is derived from a lot of assumptions (e.g. expected life or prepayments). Changes in assumptions can cause volatility to the interest revenue recognition of financial instruments. It is difficult to interpret the fluctuating financial results affected from many estimating factors, although those instruments are intentionally managed just to collect the principal and contractual interest. Particularly, during this time of uncertainties due to coronavirus pandemic, it is hard to make an accurate estimation regarding future cash flow patterns and the extension of maturity date, repayment term and other types of contract modification can lead to significant gain or loss. As a result, it is recommended that an exception be allowed to provide more flexibility. For instance, to apply cash basis for interest income recognition of financial assets with credit impaired because there is high uncertainty regarding to the ability to recover the interest income accrued if accrual basis is still applied. Additional disclosures will also be needed for this case in order that the users of financial statements can have better understanding on those financial assets.

To conclude, it is recommended that the Board reconsider the balance between the usefulness of the information provided by the EIR method and the cost or complexity and complication of EIR calculation. Also, other approaches such as simple average interest rate might be considered for some cases in order to simplify the calculation.

(b) There are some issues that might have affected the consistency of application for effective interest method.

One example is regarding to the interest recognition in case of credit-impaired financial assets. The requirements stated that interest revenue on credit-impaired financial assets must be calculated at net basis in statement of profit or loss. However, an approach to record allowance of ECL and gross carrying amount that are accrued in statement of financial position is not explicitly stated. As a result, there are diversities in practice regarding the calculation. Also, to apply EIR to gross carrying amount and allowance of ECL according to "gross-up" approach, the amount of accrued interest for the credit-impaired financial assets might be considered overstated as parts of them are not expected to be recovered.

Another point is that there is limited guidance in considering whether commitment fee should be included in calculation of EIR so additional guidance would be useful.

Question 8—Transition
(a) Did the transition requirements work as the Board intended? Why or why not? Please explain whether the combination of the relief from restating comparative information and the requirement for transition disclosures achieved an appropriate balance between reducing costs for preparers of financial statements and providing useful information to users of financial statements. Please also explain whether, and for what requirements, the Board could have provided additional transition reliefs without significantly reducing the usefulness of information for users of financial statements. (b) Were there any unexpected effects of, or challenges with, applying the transition requirements? Why or why not? Please explain any unexpected effects or challenges preparers of financial statements faced applying the classification and measurement requirements retrospectively. How were those challenges overcome?

TFAC:

In general, the relief on transition works well. Mostly the retrospective approach without restating comparative information is applied and the accumulative effect is recognised in the opening retained earnings of the reporting period that includes the date of initial application.

Question 9—Other matters
(a) Are there any further matters that you think the Board should examine as part of the post-implementation review of the classification and measurement requirements in IFRS 9 ? If yes, what are those matters and why should they be examined? Please explain why those matters should be considered in the context of the purpose of the post-implementation review, and the pervasiveness of any matter raised. Please provide examples and supporting evidence when relevant. (b) Considering the Board's approach to developing IFRS 9 in general, do you have any views on lessons learned that could provide helpful input to the Board's future standard-setting projects?

TFAC:

(a) In addition to matters mentioned in previous section, it also noted that additional guidance in some other areas will be useful.

First, guideline on allocation of purchase price when the entity pay lump sum amount for a bundle of financial instruments would help enhance consistency in application.

Another area that might be considered is for the commodities-related transactions, such as, gold or other precious metal. It is recommended that scope of IFRS 9, IAS 32 and other related accounting standards are extended to covered commodities-related transactions. At present the transactions have become more pervasive in normal business courses and the existing requirements of accounting standards are not specific enough and may result in diverse interpretation. Therefore, additional guidance for instruments that have commodities as the underlying assets; both in case of physical and non-physical delivery, would be useful to support consistent application of accounting standards.

Lastly, as digital assets and liabilities have become key issues nowadays and some type of tokens could be interpreted as financial assets or liabilities, so some guideline on the issues might be added in IFRS 9 scope.

(b) Introduction of the new accounting concept in phased approach; like IFRS 9, brings up an issue of applying various standards at the same time which results in less comparability between entities. For example, parts of IAS 39 related to hedge accounting are still being applied by some entities and the dynamic risk management project is still under development. In consequence, it is challenging for the various parties (e.g. preparers, auditors, regulators, financial statement users) to fully comprehend the whole parts of IFRS 9 requirements.