



The disclosure of the risk types of financial instruments according to the requirements of Thai Accounting Standard no.107 (Revised 2016) of Thai listed companies

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Abstract

The objective of this study is to checklist the risk type's exposure of financial instruments of companies listed on the stock exchange of Thailand, for the fiscal period ending December 31, 2017 with complying with TAS no.107 (Revised 2016). The sample are 768 notes to the financial statement of Thai listed companies. The instrument is the checklist table of the risk type's exposure of financial instruments according to the requirements of TAS no. 107 (Revised 2016). The statistics used for data analysis are frequency and percentage. It's found that the most of the risk type's exposure of financial instruments were interest rate risk, credit risk, and exchange rate risk, respectively. It also found that the risks type's exposure of the financial instruments to other aspects, such as the risk of non-compliance with the contract, insurance risk and capital risk, etc. Furthermore, it also found that the industry groups that the most of the risk types exposure of financial instruments, namely, real estate and construction group, services group, and industrial products group, respectively.

Keywords: The risk types of financial instruments, Thai Accounting Standard no.107, Thai Listed companies

Introduction

Thai Accounting Standard no. 107 (Revised 2016) "Financial Instruments: Disclosure and Presentation" (TAS no. 107) have been assigned Thai listed companies to expose the risk of financial instruments. This TAS are intended to give investors to know the investment risks and allows the company to use the protection from being sued or demanded by investors. However, the risk exposure of Thai listed companies to support explaining the nature of the risk, event that causes the risk including impact that may arise where the company should be disclosed clearly and accurately to the most useful to users of the information (The Securities and Exchange Commission, Thailand, 2017).

In addition, this TAS is also intended to provide information about the financial instruments that are important to both the statements of financial position and the financial statements, outside the base to enable users of financial statements in understanding the financial position, the results of operations and cash flows of the company and to assess the amount, timing and certainty of future cash flows associated with those financial instruments. This TAS encourage the parties to describe the level of the use of financial instruments, the risks involved and the purpose in issuing financial instruments to provide information, particularly about the balance and items arising from those financial instruments. It is also encouraged to explain policies to control

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the risk of financial instruments and other policies such as protection against risk, to avoid the risk concentrations and guarantee requirements to reduce credit risk.

The risk of financial instruments included: 1) price risk consisted of 3 types of risk, namely, foreign exchange risk, interest rate risk and market risk 2) credit risk, 3) liquidity risk and 4) cash flow risk. This information disclosed to help users of financial statements to assess the level of risk concerning financial instruments, both recognized and not recognized in the financial statements. Financial tools could make the entity, or a financial risk can be transferred to another person.

This research is to study the risk types exposure of financial instruments according to the requirements of Thai Accounting Standard no.107 (Revised 2016) of Thai listed companies. This study will help users of financial statements to evaluate the nature of the risks arising from financial instruments that the group has had and is useful to investors ' decisions.

Objectives

1. To study the risk types exposure of financial instruments according to the requirements of Thai Accounting Standard no.107 (Revised 2016) of Thai listed companies.

2. To guide users of financial statements to evaluate the nature of the risks arising from financial instruments and is useful to investors ' decisions.

Thai Accounting Standard No. 107 (Revised 2016) “Financial Instruments: Disclosure and Presentation” (Federation of Accounting Profession under the Royals Patronage of His Majesty the King, 2016).

This TAS is in accordance with the criteria established by the International Accounting Standard no. 32 (IAS no. 32) “Listing and Disclosure for Financial Instruments, which are of a revised International Accounting Standards Committee, which ended on December 31, 1997

(IAS no. 32 (Revised 1998), "Financial Instruments: Disclosure and Presentation"), which is being revised by the International Accounting Standard no.39 (IAS no. 39) “Recognition and Measurement of Financial Instruments”, which are of a revised International Accounting Standards Committee, which ended on December 31, 1997 (Amended by IAS no. 39 (Revised 1998), "Financial Instruments: Recognition and Measurement" with the content of the essence not different.

This TAS has been revised from the original by the definition of fair value adjusted in accordance with Thai Financial Reporting Standard no. 13 (TFRS no.13) (Revised 2016) “Fair Value Measurement”. It also improved disclosure about fair value, in accordance with International Financial Reporting Standard no.7 (IFRS no. 7) "Financial Instruments: Disclosures", which is the Board's revised international accounting standards (IASB) at the end on December 31, 2014 (Bound volume 2015 Consolidated without early application) with the content of the essence not different.

The risks of the financial instruments that are specified in this IAS are as follows:

1. There are 3 types of price risk is foreign exchange risk, interest rate risk, and market risk.

1.1 Foreign exchange risk is the risk that the value of a financial instrument may change due to changes in foreign currency exchange rates.

1.2 Interest rate risk is the risk that the value of a financial instrument will change due to the change of interest rates in the market.

1.3 Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

2. Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligation



3. Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities.

4. Cash flow risk is the risk that future cash flows relating to financial instruments are cash, there will be a change to. For example, in the case of bonds with a floating interest rate, changes to cash flow will make such. The actual interest rate of the bond changes, even if the fair value of the debt will not be changed.

Literature Review

Sinthuphan Penpiphat (2015) study the risk management assessment of Securities Company in Thailand. This research were aimed to: 1) study situations, problems and general trends of management leading to risks of a securities company according to the Risk-based authentication (RBA), 2) screen risk indicators from operation according to the COSO, 3) assess risks of a securities company with risk indicators under the COSO. Meantime, this is a qualitative research including document research and in-depth interview with 17 experts and focus group with 8 department. The findings indicated that: 1) situations, problems and general trends of management leading to risks of a securities company according to the Risk-based authentication (RBA): the most risks of operational management while the risk trend was relevant to operational unconformity with policies; 2) the results of screening the risk indicators from operation according to the COSO showed that there were 147 risk indicators and the most risk indicators found in the category of operational risk totaling 83 risk indicators; 3) the results of assessment of a securities company with risk indicators under the COSO revealed that out of 124 remained risk indicators categorized as risks, 65 risk indicators mostly found in the category of operational risk.

Yoosang Preeyanuch (2015) study the association between the firm performances and quality of risk disclosures in companies listed on

the Stock Exchange of Thailand between 2010 and 2012. Beretta and Bozzolan's (2004) methodology are used to measure the quality of risk disclosures from Annual Report (Form 56-1). The results show that firms disclose non-financial risks more than financial risks in term of quality and quantity. Moreover, firms in industrial sector, technology sector and financial sector have higher quality of risk disclosure than the others. This research also finds the positive association between the firm performances and quality of risk disclosures.

Hungkit Silanee, Phetcharat Nungruthai and Paopun Natsapan.(2016) study the association between the firm performances and quality of risk disclosures in companies listed on the Stock Exchange of Thailand between 2010 and 2012. Beretta and Bozzolan's (2004) methodology are used to measure the quality of risk disclosures from Annual Report (Form 56-1). The results show that firms disclose non-financial risks more than financial risks in term of quality and quantity. Moreover, firms in industrial sector, technology sector and financial sector have higher quality of risk disclosure than the others. This research also finds the positive association between the firm performances and quality of risk disclosures.

Methodology :

1. Sample;

768 notes to the financial statement of Thai listed companies. (The Stock Exchange of Thailand, 2018)

2. Instrument;

Checklist table of the risk types exposure of financial instruments according to the requirements of TAS no. 107 (Revised 2016)

3. Data Analyzing;

(1) To checklist the risk types exposure of financial instruments according to the requirements of TAS no. 107 (Revised 2016) "Financial Instrument: Disclosure and Presentation" include: 1) 3 types of price risk is foreign exchange risk, interest rate risk, and market risk 2) credit risk 3) liquidity risk and 4) cash flow risk.



(2) To checklist the risk type's exposure of financial instruments more than that defined in the TAS 107.

(3) From (1) and (2), analyzed using percentage and frequency.

Results:

Table 1: The Risk Types Exposure of Financial Instruments

Industry group	Price risk			Credit risk	Liquidity risk	Cash flow risk	The risk of non-compliance with the contract	Insurance risk	Capital risk	Other risks	Total	%
	Exchange rate risk	Interest rate risk	Market risk									
1 Agro and Food Industry	57	55	3	55	22	-	-	-	-	-	192	7.85
2 Consumer Products	45	51	1	47	20	-	2	-	-	-	166	6.79
3 Financials	40	67	15	63	55	25	3	9	-	2	279	11.41
4 Industrials	120	125	6	111	49	-	7	-	-	-	418	17.09
5 Property and Construction	138	176	11	162	76	-	12	-	-	-	575	23.50
6 Resources	49	59	4	48	26	-	4	-	-	1	191	7.81
7 Services	98	145	5	140	58	-	10	-	-	-	456	18.64
8 Technology	46	45	-	45	15	-	3	-	2	-	156	6.38
9 Other	2	4	-	4	3	-	-	-	-	-	13	0.53
Total	595	727	45	675	324	25	41	9	2	3	2,446	
%	24.32	29.32	1.84	27.60	13.25	1.02	1.68	0.37	0.08	0.12		100

Table 1 showed that Thai listed companies to exposure the most the risk types of financial instruments were interest rate risk (29.72%), credit risk (27.60%), and exchange rate (24.32%), respectively. It also found that the industry groups that reveal the most of the risk types of financial instruments, namely, real estate and construction (23.50%), services (18.64%), and industrial products group (17.09%)

Conclusion:

This study was to checklist the risk types exposure of financial instruments of companies listed on the stock exchange of Thailand, for the fiscal period ending December 31, 2017 with complying with TAS no.107 (Revised 2016) found that the most of the risk types exposure of financial instruments were interest rate risk, credit risk, and exchange rate risk, respectively. It also

found that the risks types exposure of the financial instruments to other aspects, such as the risk of non-compliance with the contract, insurance risk and capital risk, etc. Furthermore, it also found that the industry groups that the most of the risk types exposure of financial instruments, namely, real estate and construction group, services group, and industrial products group, respectively.

Moreover, the risk types exposure of financial instruments, according to the industry group. It found that;

1. Agricultural and food industry group: Most of the risk type's exposure of financial instruments were foreign exchange rates, interest rate risk, and credit risk, respectively.

2. Consumer group: Most of the risk type's exposure of financial instruments were interest rate, credit risk, and exchange rate risk, respectively.

3. Financial group: Most of the risk type's exposure of financial instruments were interest rate risk, credit risk, and liquidity risk, respectively.

4. Industrial products group: Most of the risk type's exposure of financial instruments were interest rate risk, exchange rate risk, and credit risk, respectively.

5. Real estate and construction groups: Most of the risk type's exposure of financial instruments were interest rate risk, credit risk, and exchange rate risk, respectively.

6. Resource group: Most of the risk type's exposure of financial instrument were interest rate risk, exchange rate risk, and credit risk, respectively.

7. Service group: Most of the risk type's exposure of financial instrument were interest rate risk, credit risk, and exchange rate risk, respectively.

8. Technology group: Most of the risk type's exposure of financial instrument were exchange rate risk, interest rate risk, and credit risk, respectively.

9. Other group is a group of companies that is refresh operations found that the most of the disclosure of the risk categories of financial instrument were interest rate risk, credit risk, and liquidity risk, respectively.

Suggestion

The most of industry group's exposure of risk types of financial instruments of industry groups was interest rate risk. This study is the information for investors to decide to invest in the Thai listed companies. It's a preliminary information using the investor's decisions for determining the type and characteristics of the risks of each industry group.

Further Research

Thai Financial Reporting Standard No. 9 (TFRS no. 9) "Financial Instruments" effective in January 1, 2020; Thai Accounting Standard No. 107

(TAS no. 107) will be cancelled. Further research should study the effects resulting from TFRS no.9.

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