

Chapter 7

THE FINANCIAL REPORTING FRAMEWORK AND ACCOUNTING POLICIES OF BANK OF THAILAND¹

By

Palida Amornsawadwatana²

Waewwalai Maneepairoj³

1. Overview of the Bank of Thailand

1.1 A Brief Explanation of Historical Chronology

The Bank of Thailand (BOT) was first set up as the Thai National Banking Bureau in 1940. One of the reasons for establishing the Thai National Banking Bureau was to lay the groundwork for central banking and manage government debts. Later, the Bank of Thailand Act (BOT Act) was promulgated on 28 April 1942 vesting upon the responsibility for all central banking functions. The BOT started operations on 10 December 1942, which was Constitution Day, and H.H. Prince Vivadhanajaya assumed the position of the first governor.

1.2 Functions and Task of Central Bank as Stipulated by Law

The BOT was established in accordance with the BOT Act, B.E. 2485. The BOT Act was later amended in order to put emphasis on BOT's social responsibility, to create a mechanism, to guard against economic crisis, as well as to set up BOT's decision-making process to ensure good governance and transparency in the organization. Moreover, members of the public will be able to audit and increase the understanding of the BOT's

¹ A Team Project Report submitted in partial fulfillment of the SEACEN Research Project on “Fundamental Principles of Central Bank Financial Reporting: A Preliminary Study in SEACEN Economies”. The views expressed in this paper are those of the authors and do not necessarily represent those of the Bank of Thailand or The SEACEN Centre.

² Team Executive, Finance and Accounting Department, BOT.

³ Senior Accountant, Finance and Accounting Department, BOT.

operations. The BOT Act, B.E. 2485, as amended by B.E. 2551, came into force with effect from 4 March 2008.

The BOT's objectives are to carry on the responsibility for all central banking functions in order to maintain monetary stability, financial institution system stability and payment system stability. According to the BOT Act B.E. 2485 as amended in Section 8, the BOT is empowered to transact business to attain its objectives and such powers include the following businesses:

1. The issue and management notes of the government and banknotes;
2. The formulation and implementation of monetary policies;
3. The management of the assets of the BOT;
4. The acting as a banker and the securities registrar to the government;
5. The acting as a banker to financial institutions;
6. The establishment or supporting of the establishment of a payment system;
7. The supervision and examination of financial institutions;
8. The management and administration of the exchange rate under the exchange rate regime, including the management and administration of the assets of the currency reserve, as prescribed in the law on currency;
9. The control of foreign exchange as prescribed in the law on foreign exchange control;
10. The undertaking under other laws as prescribed to be the authorities of the BOT; and,
11. Other acts in relation to or in conjunction with the management to attain the objectives of the BOT.

2. The Bank of Thailand's Financial Reporting Framework and Accounting Policies

2.1 The BOT's Financial Reporting Framework

The basic principles underlying the financial reporting of the BOT are grounded by the BOT Act, B.E. 2485 as amended by B.E. 2551.

1. Section 53, 56 and 57 require the BOT to annually submit the financial statement, of which has been certified by the Governor as well as examined and opinioned by the Office of the Auditor General of Thailand, to the Minister of Finance within 3 months from the end of a financial year, which is a calendar year. The Ministry of Finance shall later publish the BOT's financial statement in the government gazette.
2. The financial statements of the BOT have been prepared in accordance with Section 54, stipulating that the accounting of the BOT shall be in compliance with the

generally accepted accounting principles except for a particular matter which the BOT board has prescribed to be in conjunction with general practices of other central banks.

The generally accepted accounting principles in Thailand are in line with the Thai Financial Reporting Standards (TFRSs), enforced by Federation of Accounting Professions. TFRSs are substantially converged with the International Financial Reporting Standard (IFRSs) but the enforcement period of some TFRSs is behind due to some difficulties in substance.

3. The treatment on the revaluation of assets and liabilities of the BOT is prescribed under Section 16, stipulating that the profits or losses derived from such revaluation shall be accumulated in or deducted from the revaluation of assets and liabilities reserve.

Section 14 and 15 set out the process for the distribution of profits or losses for each financial year. The net annual profits of the BOT after deduction of accumulated loss, if any, shall be provided in the following order for:

1. Ordinary reserve amounting to 25 per centum; and,
2. Other reserves for particular purposes, as specified by the BOT board, upon the approval of the Minister.

Any remaining net profits (if any), after the BOT's operation shall be paid to Ministry of Finance as state revenues. However, in the case where the operation of the BOT in any year results in losses, such losses shall be compensated by the ordinary reserve.

2.2 The BOT's Accounting Policies

The summary of significant accounting policies adopted by the BOT is as the following:

2.2.6 Revenue and Expenses Recognition

Interest revenue and expense are recognized on a time proportion basis and the effective yield unless otherwise disclosed. Other revenue and expenses are recognized on an accrual basis.

2.2.7 Assets and Liabilities Revaluation Recognition

Unrealized gains or losses from revaluation of assets and liabilities of the BOT are presented in the Assets and Liabilities Revaluation Reserve under the equity section as prescribed under Section 16 of the BOT Act.

2.2.8 Foreign Currency Transactions

Transactions denominated in foreign currencies are translated into baht at the exchange rates prevailing at the dates of the transactions. At year-end, assets and liabilities denominated in foreign currencies are revalued into baht at the exchange rates prevailing on the reporting date. Unrealized gains or losses from revaluation of foreign assets and liabilities are presented in the assets and liabilities revaluation reserve under the equity section.

Gains or losses from foreign currency transactions are recognized in the statement of income when the position of each foreign currency is decreased. Whenever the position of any foreign currency increases during the day, the cost of such foreign currency is calculated by using the weighted average cost (WAC) method. The WAC is also used as the cost of the same foreign currency sold on the same day.

2.2.9 Forward Contracts

Forward contracts are used to hedge the risk arising from the exchange rate fluctuation and are presented at fair value. Unrealized gains or losses derived from changes in the fair value are presented in the Assets and Liabilities Revaluation Reserve under the equity section. Gains or losses on forward contracts are recognized in the statement of income on the settlement date.

2.2.10 Forward Contracts under Resale Agreements

The BOT has undertaken commitments with the government agencies and the state enterprises to resell foreign currencies in the future at the specific rates. The outstanding obligations are presented at fair value and the changes in the fair value are presented in the Assets and Liabilities Revaluation Reserve under the equity section.

2.2.11 Foreign Exchange Swap Contracts

Foreign exchange swap contracts are used for the purpose of liquidity management. Foreign exchange swap is an agreement to simultaneously exchange one currency against

another with two different value dates. The outstanding of claims and obligations are revalued to baht at the exchange rates prevailing on the reporting date and net value changes are presented in the statement of financial position. Unrealized gains or losses from revaluation of the outstanding obligations are presented in the Assets and Liabilities revaluation reserve under the equity section. The difference between the spot and forward exchange rates shall be treated as interest income or interest expense on a time proportion basis.

2.2.7 Futures Contracts

Futures contracts are used to hedge risk arising from the interest rate or bond price fluctuation and are presented at fair value. Unrealized gains or losses from changes in the fair value are presented in the Assets and Liabilities Revaluation Reserve under the equity section and are recognized in the statement of income when the settlement of the variation margin takes place.

2.2.8 Gold

To preserve the value of international reserves, gold is held for the purpose of risk diversification of the reserve management and is presented at fair value. Unrealized gains or losses from revaluation are presented in the Assets and Liabilities Revaluation Reserve under the equity section, and are recognized in the statement of income on disposal. The cost of gold sold during the year is calculated based on the weighted average cost basis.

2.2.9 Investment in Securities

Domestic securities are held for the purpose of monetary policy implementation and are stated at amortized cost.

Foreign securities are held for the purpose of international reserve management and are mainly stated at fair value, while held-to-maturity securities are stated at amortized cost. Unrealized gains or losses from revaluation are presented in the Assets and Liabilities Revaluation Reserve under the equity section, and are recognized in the statement of income on disposal.

The cost of securities sold during the year is calculated based on the weighted average cost basis.

2.2.10 Loans

Loans are stated at carrying balances of principals. The accrued interests are included in “Other Assets”.

2.2.11 Premises and Equipment

Land is stated at cost. Buildings and equipment are stated at cost less accumulated depreciation.

Buildings and equipment are capitalized when their useful lives are over one year. The depreciation is calculated by using the straight-line method, based on the estimated useful lives of the assets.

2.2.12 Intangible Assets

Intangible assets are stated at cost less accumulated amortization. The amortization is allocated by using the straight-line method over five years.

2.2.13 Debt Securities Borrowing

The BOT borrowed debt securities from specialized financial institutions and/or juristic persons, as prescribed by the BOT, and issued the BOT debt securities as collateral. The BOT has conducted debt securities borrowing transactions to enhance the efficiency of monetary policy implementation as well as to foster the development of money market and debt securities market in Thailand.

The debt securities borrowing fee is recognized in the statement of income. The borrowing amount is disclosed in “Commitments and Contingencies”. When the BOT sold the borrowed debt securities under repurchase agreement, the amount of claim on debt securities under repurchase agreement is presented in “Other Assets” and the amount of obligations to return debt securities is presented in “Other Liabilities”.

2.2.14 Post-employment Benefits

Defined Contribution Plans The BOT’s Rules and Regulations for Provident Fund state that the BOT and the employees who are the members of the provident fund have to make contributions to the provident fund according to the stipulated conditions. This

provident fund has already been registered under the Provident Fund Act B.E. 2530. The contributions paid to the provident fund, made by the BOT, are charged as expense in the statement of income.

Defined Benefit Plans Defined benefit plans include pension plan, as prescribed by the BOT's Rules and Regulations for Pension Fund, and post-employment medical plan, as prescribed by the Rules and Regulations for Medical Care.

The obligations under defined benefit plans are calculated by using actuarial valuation method, the Projected Unit Credit Method, and are presented at present value as employee benefit obligations. The BOT recognizes all related expenses in the statement of income and all actuarial gains and losses in the statement of comprehensive income in the period occurred.

3. Recommendation and Conclusion

The issue of accounting framework for central banks has been brought to the spotlight recently. Accounting practices vary widely among central banks, creating incomparability problems and difficulties in the understanding of their respective financial statements. For instance, similar transactions using different accounting policies and classifications, can lead users to draw incorrect conclusions without any detailed disclosures.

Some transactions of the central bank may be performed for various different purposes for commercial entities such as derivative instruments, gold transactions and FX revaluation. Other activities are unique to the central bank such as liquidity injection or the absorption activity through Open Market Operations to maintain price stability for the financial system under inflation targeting framework as well as costing of policy implementation. Under these instances, it would be more prudent and appropriate to develop a set of specialized accounting treatments for unique transactions, but which are common to the central banks in the SEACEN region, to fully reflect the activities and objectives of the central bank. Such specialized accounting treatments can be one reference point of best practice for stakeholders such as the auditor and accounting standard setter and others. However, such specialized accounting treatments should only provide the general principles while allowing the individual central bank the discretion and leeway to adapt the accounting practices depending on its rules and regulations.

References

Bank of Thailand, Bank of Thailand Act B.E. 2485, Available at:

<https://www.bot.or.th/English/AboutBOT/LawsAndRegulations/SiteAssets/Law_E01_Bot.pdf>

Bank of Thailand, (2014), Financial Statement 2014, Available at:

https://www.bot.or.th/English/AboutBOT/FinancialReports/AnnualAccount/DocLib/FinancialReport_AnnualAccount_EN/Statement_2014_EN.pdf

Bank of Thailand, (2014), Annual Report 2014, Available at:

<https://www.bot.or.th/English/ResearchAndPublications/Report/DocLib_AnnualEconomicReport/AnnualReport_2014ENG.pdf#search=annual%2520report%25202014>.