Korea Accounting Institute KAI

Korea Accounting Standards Board KASB

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Exposure Draft 'Improvements to IFRSs'

International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Exposure Draft 'Improvements to IFRSs'.

I would appreciate your including our comments in your summary of analysis.

The enclosed comments represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may direct your inquiries either to me(cwsuh@kasb.or.kr) or to Mr. Sung-ho Joo (sung-ho.joo@kasb.or.kr), senior researcher of KASB.

Yours sincerely,

Dr. Chungwoo Suh
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Exposure Draft 'Improvements to IFRSs'. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in KASB.

1. General questions

Question 1

Do you agree with the Board's proposal to amend the IFRS as described in the exposure draft? If not, why and what alternative do you propose?

[IFRS 3]

Generally agree with your proposal. However, as noted in the example we provided below, per the paragraph 19 proposed, the share-based payment of 10 is not fully considered in calculating the NCI. Hence, the current wording of 'the present ownership instruments' proportionate share of the acquiree's identifiable net assets' needs to be rephrased as follows,

'the present ownership instruments' proportionate share of the amount with the components of non-controlling interest that are present ownership instruments that entitle their holders to a pro rata share of the entity's net assets in the event of liquidation being deducted from the acquiree's identifiable net assets. In order to assist your understanding, we provide the following example.

<Example>

Assume that A acquires 80% ownership interests of B for cash 72. The identifiable net assets of B is 100, and the share-based payment award of B measured by IFRS 2 is 10(also assume that the fair value of the share-based payment award is 10). The remaining 20% of ownership interests is 18. Then the questions remain how to calculate the non-controlling interests?

1) Calculation based upon the current IFRS 3, NCI = 20
   - the remaining 20% ownership interests = 100 x 20% = 20
   - the component of share-based payment award = 01
2) Calculation based upon the proposed ED, NCI = 30
   - the component of share-based payment award: 10
   - the remaining 20% ownership interests = 100 x 20% = 20
3) Calculation based upon the KAS's proposal, NCI = 28
   - the component of share-based payment award : 10
   - the remaining 20% ownership interests = (100-10*) x 20% = 18
   * 10 represents the component of share-based payment award

Also, the word 'and' in the proposed paragraph 19 '...present ownership instruments and entitle their holders to a pro rata share...' may be confusing equivocally indicating that both NCI that are present ownership and NCI that entitle...We hence propose that it be paraphrased as follows,

'except for the components of non-controlling interest that are present ownership instruments that entitle their holders to a pro rata share of ...'

Lastly, the calculation of individual components of noncontrolling interests is fairly new, which may resultingly entail diversification in application. We believe the IASB should provide illustrative guidance in order to enhance preparers' understandability.

[IFRS 5]

We disagree with the proposal of the ED.

An entity can distinguish an interest held for sale and other purpose when it commits to a sale plan involving loss of significant influence of an associate or loss of joint control of a jointly controlled entity. Therefore an entity should classify an interest in the former associate or jointly controlled entity other than an interest held for sale according to the purpose of it.

[IFRS 7]

With respect to the amendment of paragraph 36(a), it is necessary to amend the paragraph B9 as well. This is because the paragraph B9 is described as that the disclosure of financial instruments is required even in the case where the carrying amount best represents the maximum exposure to credit risk.

Regarding the deletion of the paragraph 36(d), we acknowledge that terms of loans are often renegotiated for reasons not related to impairment or overdue as explained in BC4. However, we believe that renegotiation resulting in relief of debtor's liability would generally be a response from creditor to downgrade of debtor's credit rating. Therefore when the nature of the renegotiation is as such, it would be useful to require the creditor to disclose related information of the renegotiation so as to the users of financial statements to understand the credit risk of the entity. Since The users would not obtain any information about ‘renegotiaion’ under the current proposal, it would not be considered as desirable improvements for them.

[IAS 1]

We agree. However, it needs to clarify the meaning that each item(not general item) of other comprehensive income in the paragraph 106(d)(ii) can only be presented in the statement of change in equity or notes.

[IAS 27]

We agree. Additional consideration should be given to following areas

① Change of wording

IAS 27.38 (b) at fair value through <u>profit or loss, each</u> in accordance with IAS 39.

→ (b) at fair value through <u>profit or loss</u> in accordance with IAS 39.

② Change of other standards

Ex: IAS 36.2, IAS 36.4, IAS 36.12

Question 2

Do you agree with the proposed transition provisions and effective date for the issue as described in the exposure draft? If not, why and what alternative do you propose?

We agree.

2. Specific questions

Question 3

The Board proposes changes to IAS 34 Interim Financial Reporting to emphasise its disclosure principles. It also adds to the guidance to illustrate better how to apply these principles. The Board published an exposure draft Fair Value Measurement in May 2009. In that exposure draft, the Board proposes that all of the fair value measurement disclosures required in IFRS 7 Financial Instruments: Disclosures for annual financial statements should also be required for interim financial statements.

Do you agree that this proposed amendment is likely to lead to more useful information being made available to investors and other users of interim financial reports? If not, why? What would you propose instead and why?

We disagree with the proposal of the ED. If disclosures for annual financial statements should also be required for interim financial statements we believe that they are burden to an entity. Therefore, we suggest that material changes of information of annual statements should be updated in the interim financial statements.

Question 4

The Board proposes changes to IAS 34 Interim Financial Reporting. Do you agree that amending IAS 34 to require particular disclosures to be made in interim financial statements is a more effective way of ensuring that users of interim financial statements are provided with useful information? If not, why? What approach would you propose instead and why?

We disagree with the proposal of the ED. We believe it is reasonable that an entity decides whether to disclose information according to materiality of it other than particular disclosures for interim financial reporting.

Question 5

The Board proposes to amend IAS 40 Investment Property to remove the requirement to transfer investment property carried at fair value to inventory when it will be developed for sale, to add a requirement for investment property held for sale to be displayed as a separate category in the statement of financial position and to require disclosures consistent with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Do you agree that the proposed amendment should be included within Improvements to IFRSs or should a separate project be undertaken to address this issue? If you believe a separate project should be undertaken, please explain why.

We agree.