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Seoul 100-753, (South) Korea

7 September, 2009

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 CLASSIFICATION OF RIGHTS ISSUES. 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 Ms. Hyun-Jung Park (hyunjungpark@samil.com), visiting research fellow of the KASB.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'chungwoo suh', is displayed within a light gray rectangular box.

Dr. Chungwoo Suh  
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on EXPOSURE DRAFT CLASSIFICATION OF RIGHTS ISSUES. Our comments include views from local constituents. We finalized the comment letter through the due process established in KASB.

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- **General Comments**

We believe that it is rational to classify rights issues as equity components regardless of the kind of denominated currency because the substance of those transactions are equity transactions occurred with shareholders in their capacity as shareholders .

We think those transaction may be treated by the following two approaches. One is based on ‘fixed for fixed’ principle (IAS 32) and the other the concept of ‘equity transaction with shareholders in their capacity as shareholders’ (IFRS 2, IFRIC 17). We believe it is necessary that the IASB have a comprehensive review the interrelationship of the two approaches before the IASB determines which approach is more appropriate to the transactions rather than a piecemeal amendment as in the exposure draft.

In addition, to avoid unnecessary frequent amendments, we request that the IASB review whether the proposed amendments are consistent with the Basic Ownership Approach, which is an adopted approach for distinguishing between equity and liabilities in the preliminary view of ‘Financial Instruments with Characteristics of Equity’ published by the FASB in November, 2007 and the Discussion Paper of opinions about working results of the FASB published by the IASB in February, 2008.

However, if the limited amendments are inevitable as in this ED, we refer to the parts which need additional examination in the following comments.

Finally, for clearer understanding, we request the IASB provide practical examples which will illustrate accounting treatments for following cases (from grant date to settlement date of those rights):

- (a) example for being classified into equity according to this ED
- (b) example for not being classified into equity according to the existing IAS 32

- **Question & Answer**

**Question 1 - Specifying the characteristics of the rights issue**

**The proposed amendment applies to instruments (rights) to be offered pro rata to all existing owners of the same class of equity instruments and the exercise price to be a fixed amount of cash in any currency.**

**Do you agree with the proposal to limit the amendment to instruments with these characteristics? If not, why? Are there any other instruments that should be included and why?**

We agree with the proposal partially.

Rights issues are offered rights pro rata to all existing owners. And as the exercise price is normally below the current market price of shares, shareholders might exercise their rights so that they retain their ownership. Therefore, we agree that rights issues fulfilling these conditions are classified into equity.

However, in cases of rights offered non-pro rata to existing shareholders, rights offered to the parties other than shareholders and rights granted at initial incorporation, those rights is not within the scope of this ED so there are some questions - they should be classified into the financial liabilities. Especially, at initial incorporation of joint venture, the change of amounts contributed by foreign investor which caused by changes of exchange rate between date of investment confirmation and date of capital contribution, is classified into the financial liability according to ED(according to Korean GAAP, they are classified into the equity). So, we request that the IASB reconsider whether such rights should be classified into equity. That

is, we ask the IASB to examine about the adequacy of proposal to limit the amendment to instruments with characteristics on ED.

### **Question 2 - Specifying the currency of the exercise price**

**The proposed amendment specifies that the fixed amount of cash the entity will receive can be denominated in any currency. If that currency is not the entity's functional or reporting currency, the proceeds it receives from the issue of its shares will vary depending on foreign exchange rates.**

**Do you agree with the proposal to permit an entity to classify rights with the characteristics set out above as equity instruments even when the exercise price is not fixed in its functional or reporting currency? If not, why?**

We agree with the proposal.

### **Question 3 - Transition**

**The proposed change would be required to be applied retrospectively with early adoption permitted.**

**Is the requirement to apply the proposed change retrospectively appropriate? If not, what do you propose and why?**

We think that is appropriate.