

Yonsei Severance B/D 4th Fl.
Chung-gu Namdaemunro 5-ga 84-11
Seoul 100-753, (South) Korea

31 March, 2009

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

Dear Sir or Madam:

IASCF REVIEW OF THE CONSTITUTION <Identifying Issues for Part 2 of the Review>

The Korea Accounting Standards Board (KASB) has finalized its comments on IASCF REVIEW OF THE CONSTITUTION. 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), 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 IASCF REVIEW OF THE CONSTITUTION. Our comments include views from local constituents. We finalized the comment letter through the due process established in KASB.

Question 1

The Constitution defines the organisation's primary objective in the following manner:

to develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions

In fulfilling that objective, the organisation is

to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies

Does the emphasis on helping 'participants in the world's capital markets and other users make economic decisions', with consideration of 'the special needs of small and medium-sized entities and emerging economies', remain appropriate?

We agree that 'the special needs of small and medium-sized entities and emerging economies' remain in the constitution. Additionally, we propose that the constitution be altered to reflect that not only needs of participants in the world's capital markets and other users, but also burden of financial statement preparers and market stability are important.

Question 2

In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?

We basically agree that the IASB's financial reporting standards should be principle-based and this clarification of principle-based should be embedded in the Constitution. To be effective operationally the constitution includes that concrete definition of 'principle-based' and some criteria for assessing whether or not a standard/Interpretation is made principle-

based. And standard/Interpretation should use plain languages and include the appropriate descriptions and examples for users to understand its principle.

Question 3

The Constitution and the IASB's Framework place priority on developing financial reporting standards for listed companies. During the previous review of the Constitution some commentators recommended that the IASB should develop financial reporting standards for not-for-profit entities and the public sector. The Trustees and the IASB have limited their focus primarily to financial reporting by private sector companies, partly because of the need to set clear priorities in the early years of the organisation. The Trustees would appreciate views on this point and indeed whether the IASB should extend its remit beyond the current focus of the organisation.

The IASB should not be asked to address financial reporting standards for not-for-profit entities or entities in the public sector, at least not at this time. Expanding the IASB's mandate to these areas would lead to distracting its resources that should be used to complete pre-fixed works.

Question 4

There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?

We agree that IASCF needs to have close collaboration with accounting standard-setting bodies for a single set of high quality global accounting standards with consideration of various interests. In promoting collaboration, the constitution should contain specific procedures in which IASB work with NSSs.

Additionally Korean FSS (Financial Supervisory Service) expressed its opinion: There is a possibility that role of supervisory agencies could be reduced after adopting IFRS. Therefore, IASCF needs to maintain a close relationship with supervisory agencies to understand national current issues regarding IFRS.

Question 6

The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

In addition to considering diversity of geographical backgrounds, various sizes of economies should be considered in order for emerging countries to have a chance to participate in and obtain the diversity in the Trustee.

Question 7

Sections 13 and 15 set out the responsibilities of the Trustees. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation—the fundamental operating principle of the organisation. In addition to these constitutional provisions, the Trustees have taken steps to enhance their oversight function over the IASB and other IASC Foundation activities. The Trustees would welcome comments on Sections 13 and 15, and more generally on the effectiveness of their oversight activities.

We agree with the necessity of Trustees' supervisory role only if it should be carried out in the way that it can reinforce the independency and efficiency of the IASB. For doing this, the scope and procedure of Trustees' supervisory role should be clearly stated in the Constitution. Especially, they should ensure that consideration of 'the special needs of small and medium-sized entities and emerging economies' are appropriately performed in the course of supervision.

Question 8

The Trustees are responsible for ensuring the financing of the IASC Foundation and the IASB. Since the completion of the previous review of the Constitution, the Trustees have made progress towards the establishment of a broad-based funding system that helps to ensure the independence and sustainability of the standard-setting process. (For an update on the funding status, see

<http://www.iasb.org/About+Us/About+the+IASC+Foundation/Funding.htm>)

However, the Trustees have no authority to impose a funding system on users of IFRSs. The Trustees would welcome comments on the progress and the future of the organisation's financing.

Currently, operating funds for international accounting standard setting body is provided from big 4 accounting firms and major companies. This circumstance causes the instability of finances and damages independency of international accounting standard setting body, further leading to down-grading quality of accounting standards.

In order to achieve the financial stability of international accounting standard setting body, current funding system should be changed to a collective and continuous donation system from various countries, preferably from international organization represented by various countries. We propose that G20 countries share the total budget of international accounting standard setting body at the rate of GDP. We believe that our proposal can help international accounting standard setting body to attain the independency and professionalism through achieving the financial stability.

Question 9

Commentators have raised issues related to the IASB's agenda-setting process. The Constitution gives the IASB 'full discretion in developing and pursuing its technical agenda'. The Trustees have regularly reaffirmed that position as an essential element of preserving the independence of the standard-setting process. However, they would welcome views on the IASB's agenda-setting process and would appreciate it if, in setting out views, respondents would discuss any potential impact on the IASB's independence.

IASB should diversify the channels in considering its agenda. Especially it needs to develop the ways to hear urgent accounting issues from countries which adopt IFRS. To achieve this goal we suggest that the constitution include the strengthened role and responsibility of SAC in the IASB's agenda-setting process

Question 10

The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.

We believe that IASB's due process should include a field test mandatorily in the course of preparing IFRSs in order to assess the problems beforehand which can be raised in applying them and avoid unnecessary steps such as post implementation revision. We also propose that

IASB ask other NSSs to perform various tests on matters such as applicability or wording of IFRSs before final announcement.

Question 11

Should a separate ‘fast track’ procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a ‘fast track’ procedure?

We believe that standard setting procedure is always subject to at least minimum due process that would allow all stakeholders the opportunity to provide meaningful comment. Only when dealing with really urgent matters that also need to be stated in the constitution including the characteristics and scope of such an event, IASB can reduce the period for external comments. We have a concern that only English-speaking countries can be benefitted from ‘fast track’ procedure for ‘urgent’ issues, because it takes much more time for non-English countries to adopt the revision.

Question 12

Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

We believe that the strengthened role and responsibility of SAC (not merely its advisory role) in the IASB’s agenda-setting process is necessary so that SAC can propose the IASB agenda.

Question 13

Attached to this discussion document are the terms of reference for the SAC, which describe the procedures in greater detail. Are there elements of the terms of reference that should be changed?

We believe that a process is necessary in which SAC can give advices and feedback continuously regarding standard-setting other than in regular meetings.