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15 January 2009

Exposure Draft ‘Investments in Debt Instruments’
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 ‘Investments in Debt instruments’. 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 the Exposure Draft 'Investments in Debt Instruments'. Our comments include views from local constituents. We finalized the comment letter through the due process established in KASB.

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

We do not think the disclosure required by this amendment would be sufficient enough to provide useful information to users, given that the purpose of this amendment is to enable users to analyze the components of impairment loss for available-for-sale instruments.

Without the information of reconciliation, it would not be easy for users to analyze the impairment loss for available-for-sale instruments. Furthermore, it is not clear what the amounts in each 'what-if' scenario should represent. For instance, if all investments had been classified as financial assets at fair value through profit or loss, different hedge accounting from the one under actual situation could have been applied, in which case, it is not plausible to reasonably measure pre-tax profit or loss in that scenario.

Therefore, we suggest that disclosure of separate components of impairment loss for available-for-sale instruments be required rather than the proposed 'comprehensive disclosure'.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions. Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

As suggested for the question 1, we do not support for the proposed 'comprehensive disclosure'. However, the reconciliation should be required if the 'comprehensive disclosure' is retained.

It is our belief that the information of fair value is more useful than the amortised cost. In this sense, as a primary disclosure requirement, reconciliation of profit or loss under financial statement and profit or loss under 'if all investments had been classified as financial assets at fair value through profit or loss' should be provided. The reconciliation of profit or loss under financial statement and profit or loss under 'if all investments had been accounted for amortised cost' could be required as supplementary disclosure. The examples are presented as below.

Assumption: An entity holds only two debt instruments; Instrument A is an available-for-sale instrument and Instrument B is a held-to-maturity instrument. Both instruments were impaired during the current year.

Reconciliation for the scenario A

	Amount
Pre-tax profit or loss under financial statements	100
Other comprehensive income for Instrument A that would have been recognised if it had been classified as financial assets at fair value through profit or loss	(10)
Impairment loss for Instrument B that would have been recognised if it had been classified as available-for-sale category	(20)
[Scenario A] **If all investments in debt instruments had been classified as financial assets at fair value through profit or loss**	70

Reconciliation for the scenario B

	Amount
Pre-tax profit or loss under financial statements	100
Impairment loss for Instrument A that would not have been recognised if it had been accounted for at amortised cost	40
[Scenario B] **If all investments in debt instruments (other than those classified as at fair value through profit or loss) had been accounted for at amortised cost**	140

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

As suggested for the question 1, we believe the information that enables users to analyze the components of impairment loss for available-for-sale instruments would be more useful than the proposed 'comprehensive disclosure'.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss. Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

We agree with the proposal.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We would like to express our reservation about the retrospective effective date, even if the additional cost to generate the information required by this proposal would not be significant.

It seems inappropriate to amend the standards every year on a piece-meal basis, as proposed that the effective date for the exposure draft of IFRS 7 published in October 2008 be 1 July 2009 and the effective date for this exposure draft be 15 December 2008 (annual periods ending on or after 15 December 2008). This is because frequent amendments would cause confusion among users. Hence it would be more desirable to revise the standards reflecting all the necessary amendments and allow a sufficient period of time until the effective date of the revised standard.

Furthermore, we think the proposed effective date for this amendment needs to be postponed, although we understand that the purpose of this amendment is to immediately resolve the issue of the recent financial crisis. The reason is that the countries which adopt IFRS into their law after translation and their own endorsement would need a sufficient period of time to effect this amendment.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

We would like you to take into account the countries that adopt IFRS starting from 2009. Under this proposal, the entities which apply the amendment are not required to provide comparative information for prior years. However, an entity in the countries that adopt IFRS from 2009 would have to provide comparative information of 2008, unless IFRS 1 stipulates the transition requirement otherwise.

Therefore, it is necessary to mitigate the burden of first-time adopters from 2009, by exempting them from disclosing comparative information.