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December 2010

Paper for public consultation

STATUS OF TRUSTEES' STRATEGY REVIEW

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 Paper for public consultation STATUS OF TRUSTEES' STRATEGY REVIEW. 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,

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 Paper for public consultation STATUS OF TRUSTEES' STRATEGY REVIEW. 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.

Paper for public consultation
STATUS OF TRUSTEES' STRATEGY REVIEW

Mission: How should the organisation best define the public interest to which it is committed?

- 1. The current Constitution states, " These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world ' s capital markets and other users of financial information make economic decisions. " Should this objective be subject to revision?**

We are of the view that the highest focus should be put on the interest of investors. This is also consistent with the purpose of recently revised Conceptual Framework for Financial Reporting*.

* Conceptual Framework for Financial Reporting 2010: ...The objective of general purpose financial reporting* is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.

- 2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?**

Since the public policy concerns (financial stability and etc) may contradict with transparency and relevance of financial information, there needs to be the basis which emphasizes the importance of transparency which is also relevant to the purpose of

financial reporting from perspective of organization who establishes international accounting standards.

The public policy concerns may be different in between countries. Adjustment process of these demands or concerns per each country will deteriorate timeliness of standards amendments. And supervisory organizations can try to revise the standards in order to deal with the issues that ought to be solved through the policy, which leads to obstructing the consistency of principle in the standards.

Supervisory institution insists that public policy concerns be considered to the extent that transparency and relevance of financial information can be secured.

Governance: how should the organisation best balance independence with accountability?

3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

The current governance is appropriate however each organization's role and responsibility should be reviewed.

Each organization, especially considering the characteristics of IASB, the IFRS adoption countries should be the members of each organization. The current IASB's structure which carries excessive political characteristic is not appropriate. The organization must be faithful to the inherent purpose of standard setting institutions.

Moreover, requiring independent report on Monitoring Board's activities is needed so that the activities can be controlled and have more responsibilities.

4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the

legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities?)

Diversifying the current composition of the Monitoring Board and including securities' supervising authorities of emerging countries and international organization (ex. IMF, INRD, UN etc) can reinforce the fulfillment of public responsibilities of the IFRSF. In the current constitution or procedure handbook there is no specific statement of detailed outputs in activities carried by the monitoring board. In order to bolster the legal binding force of the Monitoring Board's work, the major contents should be stated in the Constitution.

The composition of IFRS Foundation can be benchmarked from the Basel committee* which is the affiliated organization of Bank of International Settlement (BIS).

*It was established by each country's government. However, enrollment, financing and managing are done by the central bank. Moreover, the government officials cannot be appointed as the BIS trustee which prevents the government's influence of each country.

Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

The supplementation and review are needed in overall process including the principal body who decides the priority of the current standard setting process. There needs to be a process of reviewing the appropriateness of selecting agenda items and deciding priority by the organization other than the IASB (such as Trustees) and this review process should be formulated. The Due Process Oversight Committee of the IFRS Foundation Trustees needs to take this project.

Disclosed information on the current process of selecting amending objects is not sufficient. There is a risk it may be biased by particular country or company's demands.

Thus, there needs to be sufficient disclosure of information related to the selection process as followed:

- (1) List of revision requests received
- (2) Process for determination of agenda
- (3) Reason for exclusion of requests in (1)
- (4) Process for determination of setting the priority

Especially, the review process which assesses whether the requests from developing countries should be considered appropriately and they are aligned with international application issue in the process of agenda-setting is required

Furthermore, analysis of external comments regarding DP, ED, or consultative paper should be published and various means (ex. statistical approach based on survey) be invented in the due process to prevent subjectivity of staffs. And post implementation Review should be reinforced and published periodically.

6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

The IFRS adoption countries are expected to increase. Thus, the consistent application and implementation issue will be the main topic and will be the issue which will arise regarding the quality of the IFRS. Especially, there needs to be a method developed that can reduce the differences caused in various countries through IFRS application and can treat the urgent issues effectively and in timely manner in real practice.

Promptness and efficiency should be improved by expanding and reforming the composition and delegating the authorities to IFRS interpretation committee from the IASB. And cooperation with NSS is important to decrease the diversity in IFRS application.

Even if there are many interpretation demands in markets, currently urgent issues and interpretation of ambiguous requirements in standards are usually consulted with major accounting firms. As a result, IFRSs are applied in so conservative fashions that the

principles that IFRSs set out may be overshadowed. Therefore, IFRS interpretation committee should be the one standing to respond the necessary interpretation in timely manner.

Before developing high-level strategy, the Trustees should have clear information on the various levels to which each country belongs to. Based on this the Trustee can embody the detailed strategies that fit in each level of countries. Trying to spread the experiences of mature level of IFRS adoption countries(EU, Australia) and intensively helping the early stage of IFRS adoption countries(Korea, Canada) can be the examples.

Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

Current arbitrary financing method worsens the instability of IFRSF financing and dependence on particular countries or organization. Thus, this may cause potential deterioration of independence of international accounting standards setting process.

In order to improve financial stability of international accounting setter's organization, a policy of dividing the contribution amount proportional to each country's size of capital market is essential to be reviewed.

The Finance committee or the Audit committee is appropriate to be composed with the countries who share the financing as major players.

Other issues

8. Are there any other issues that the Trustees should consider?

In order to accomplish the goals of Constitution of the IFRSF in process of establishing international accounting standards, not only great economic countries but also emerging countries' accounting practices should also be sufficiently considered.

In this context, the composition of IASB, who has responsibility of establishing accounting standards in real practice, should be reviewed. The composition is more appropriate with the distribution based on the size of stock market along with professional knowledge rather than geographical distribution. Additionally the process of appointing the IASB members needs to be examined including the composition of the Nomination Committee of IFRS Foundation Trustees.

On the other hand, Trustee and the IFRS Interpretation committee's membership composition should consider geographical matter. Especially, in the composition of IFRS Interpretation committee, eliminating the participation of the IFRS non-adopted countries is appropriate.

Additionally, current concept of 'principle based standards' is unclear. The trustee need to assign more resources on the Framework of the project. After establishing solid Framework, it is expected to propose clear and consistent standards and help the users in practice understand and interpret IFRS.

There is need for sufficient review of the related problems upon introduction of new standard. Therefore, delaying the effective date as much as possible is necessary.