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1 December 2008
Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sir David Tweedie

The Korea Accounting Standards Board (KASB) is fully supportive for your efforts to resolve the accounting issues that arose from the current global financial crisis. It is our hope that this letter would be considered in the discussion at the round table meeting in Tokyo as well as at high-level advisory group.

We asked our constituents to provide comments on the topics that should be addressed as to the financial crisis, and this letter includes the comments that were received.

1. Foreign currency translation

As Korea suffered from enormous devaluation on local currency, a large number of local companies were severely hit by this abnormal fluctuation. And this led to strong criticism from constituents for the accounting standards that require foreign currency translation even on long-term monetary assets and liabilities. Thus, in this rare circumstance, it would be necessary to reconsider the requirements as to foreign currency translation.

There is much debate and discussion on fair value accounting going on around the globe. However, attention has not been drawn to the issue of foreign currency translation. The reason for this may be that developed countries have not gone through large foreign exchange fluctuation, especially the countries using US dollar as their functional currency would have little to do with this problem.

But from the perspective of developing countries which heavily depend on exports and foreign investment, it would be a reasonable argument that foreign currency translation should be considered as much as fair value accounting is because gain or

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loss on the translation is one of the components of fair value for foreign currency denominated assets and liabilities. Also one can suspect pro-cyclicality in translating foreign exchange as in fair value accounting. So where global accounting issues are addressed, this matter should be highlighted.

It can be suggested that we revisit the discussion when SFAS 8 was issued in 1975. The basis of conclusion for SFAS 8 states that the alternatives that was considered but rejected were to record an exchange gain or loss when payables or receivable are settled, when the rate change more than a specified percentage from the rate previously used, and if the rate change is likely to reverse.

SFAS 52 that replaced SFAS 8 also mentions the proposal that a transaction gain or loss should be deferred if the rate change that caused it might be reversed before the transaction is settled.

The rationale to reject these proposals may be legitimate under normal circumstances. But in this rare circumstance, these alternatives should be reconsidered.

Another practical solution is to exempt long-term financial instruments from translation. It is likened to the fact that held-to-maturity financial instruments are not measured at fair value while fair value of held-for-trading financial instruments is recognised in profit or loss.

It can also be argued that as IFRS makes an exception to financial reporting in hyperinflationary economies, 'hyper-fluctuating exchange rate' economies is allowed for exceptional accounting.

This issue is the hottest one among the requests from Korean constituents. So it is our strong suggestion to address this matter comprehensively at high level advisory group.

2. Impairment issues

- Reversal of impairment loss for available-for-sale equity instruments

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The reversal of impairment loss in profit or loss for equity instruments classified as available for sale is not allowed according to the paragraph 69 of IAS 39.

However, it does not seem reasonable to preclude the reversal based on the fact that the reversal is indistinguishable from other increases in fair value as stated in the BC130 of IAS 39. Furthermore, it is inconsistent with the treatment for available for sale debt instruments.

Thus the requirement for reversal of impairment loss needs to be consistent.

- Objective evidence of impairment

According to the paragraph 61 of IAS 39, a significant prolonged decline in the fair value of an equity instrument below its cost is an objective evidence of impairment.

Amid global financial turmoil, fair value of equity instruments is plummeting deeply mainly because of liquidity contraction and frozen investment mind, irrespective of the intrinsic value of companies.

It is therefore unreasonable to consider a significant prolonged decline in the fair value as the evidence of impairment in this unprecedented event.

So it is necessary to consider the amendment to this paragraph, by stating that in rare circumstances, a significant prolonged decline in the fair value is not an objective evidence of impairment in itself and other market factors should be considered for the determination. This would also be consistent with the recent amendment that allows the reclassification of held for trading financial assets.

3. Fair value measurement

- Practicability of accounting for day 1 PL under Level 3

It would be impractical to defer day 1 PL under Level 3 for the following reasons.

- Where using the quotes from external pricing service agency, considerable cost for valuation would be incurred additionally.

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- Where using an internal model, the theoretical price from the valuation model cannot be obtained in the strict sense because both the observable and unobservable inputs are used and the closing price data, not the data at the time of transaction is used as observable market data for an input to the model.

It is also found that European companies apply this requirement to a limited number of derivatives. Thus the standard needs to be clearer on this issue.

In addition, there is practical concern about the first-time adoption of IFRS regarding Level 3 measurement. Day 1 PL should be calculated for the transaction entered into after 1 January 2004, still existing at the date of transition to IFRS in accordance with IFRS 1. 25G. Although there may not be significant difference between the transaction price under the previous local GAAP and the amount calculated according to Level 3 under the IFRS, it still requires companies to determine whether the difference is significant or not.

To relieve the burden for first-time adoption companies, one of the ways to amend the standards is to require the assessment on and adjustment to the transaction price under Level 3 should be made only under rare circumstances. For this purpose, it may be useful to refer to US GAAP (SFAS 157. Para 17) which describes the circumstances that transaction price might not represent the fair value at initial recognition.

Another possible way is to make an exception that allows first-time adoption companies to recognise day 1 PL regardless of the Levels.

- Elimination of restriction to fair value option

Fair value option for a contract that contains embedded derivatives is restricted if the cash flows that is modified by the embedded derivatives is not significant or it is clear that separation is prohibited. This means that assessment of separation should be made before the application of fair value option.

However, there seems no reason for this conditional requirement because one of the purposes of fair valuation option for embedded derivatives is to reduce the cost required for the assessment of separation.

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Hence it would be beneficial for companies, especially the small and medium sized ones if fair value option is permitted without the need to assess separability.

It would be our pleasure to further discuss any aspects of this letter.

Yours truly,

Chungwoo Suh, PhD, CPA
Chairman
Korea Accounting Standards Board