

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

Dear Sir David Tweedie

Kookmin Bank (KB) 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.

## **1. Change of impairment criteria for equity securities**

### (1) Background and Issues

- Under IFRS, impairment for equity securities is recognized when decline in fair value is significant or prolonged.
- Therefore, impairment is recognized conservatively under IFRS for either case where there is a significant amount of decrease that is temporary, or a small amount of decrease that is prolonged. Once impairment recognized, no reversal is allowed.
- Under US GAAP, impairment is recognized when decrease in fair value is other than temporary.

### (2) Suggestion

- The conservative impairment criteria under IFRS need to be partially mitigated. It should also be allowed to recognize reversals when there is clear evidence of recovery of fair value.

## 2. Change of decision criteria for active market

### (1) Background and Issues

- Under IFRS, the market's status (active or inactive) affects classification of financial instruments as well as measurement method (whether to use quoted price or valuation model).
- Determining whether the market is active or not could be very subjective. It is more difficult to determine the market status in the current economic crisis due to substantial decrease in transaction volume and significant increase in bid-ask spread.
- Therefore, when there are different basis for determining active market among entities, the same instrument could be classified into different categories which will decrease comparability among entities.

### (2) Suggestion

- More specific guidelines for determining the market status are necessary.
- Amendments should be considered to make market status not affect financial instrument classification similar to US GAAP.

## 3. Simplification of hedge test

### (1) Background and Issues

- Under IFRS, short cut method is not allowed and hedge effectiveness test is required for all hedge transactions.
- Separate hedge effectiveness test is required for even mirror-imaged back-to back transaction, which is a perfect hedge, which would be costly and inefficient for companies.
- US GAAP allows short cut method when specific requirements are met.

### (2) Suggestion

- Consider allowing short cut method for perfect hedges that meet specific requirements.

#### 4. Amendment of Bid-Ask price application rule

##### (1) Background and Issues

- Under IFRS, financial assets/liabilities traded in active markets should be fair valued by using bid price/ask price respectively.
- There are cases that bid-ask prices are not easily obtained from the market, and application of bid-ask prices do not make a meaningful difference to the company's financial reporting results.
- However, companies may incur significant cost to apply bid-ask prices as it requires implementation of systems.
- US GAAP and current practice allow application of appropriate price within bid-ask spread range (e.g., mid price) for fair valuation.

##### (2) Suggestion

- Relevant rules may have to be revised to allow applying appropriate price within bid-ask spread range rather than request strict application of bid-ask prices.

#### 5. Allowing cost method for unlisted equity securities

##### (1) Background and Issues

- Under IFRS, all unlisted equity securities are measured at fair value in principle.
- However, internal measurement of fair value of unlisted equity securities is difficult; therefore, most companies use external valuation institutions to measure those in practice, which would incur excessive costs for companies.
- Under US GAAP, debt securities and listed equity securities are measured at fair value; however, cost method is applied to unlisted equity securities or equity securities restricted for disposal, which are classified as "other investment."

##### (2) Suggestion

- Need specific quantitative / qualitative criteria that allow cost method for certain unlisted equity securities.

## 6. Enhancing disclosure requirements of fair valuation method

### (1) Background and Issues

- Each company's disclosure of fair valuation method regarding financial instruments are boilerplate and insufficient; therefore, it is difficult for investors to determine reliability and credibility of fair values that are recognized in financial statements.

### (2) Suggestion

- Consider establishing policies that require more specified disclosures so that users of financial statements can substantially understand the fair valuation method that companies apply.

### [ Other comment ]

#### Accelerating Due Process of IFRS standards

### (1) Background and Issues

- It is known that due process for establishing new IFRS standards normally takes 3~5 years. Specifically, even after exposure draft which substantially finalize the content of new standards is released, actual application takes another 1~2 years.
- For companies which need to proactively response to rapidly changing economic environment and issues, timely update of accounting standards is required to properly reflect substance of transactions into the financial statements.

### (2) Suggestion

- Due process of IFRS standards should be accelerated as much as possible as appropriate.

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

Yours truly,

Jae Young Choi  
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Kookmin Bank