AGENDA PAPER 4
TRUSTEE MEETING
JANUARY 2013

IFRS Adoption and Implementation in Korea, and the Lessons Learned

IFRS Country Report

31 December, 2012

Korea Accounting Standards Board
Financial Supervisory Service

- Table of Contents –

Executive Summary

Korea announced ‘the Roadmap toward IFRS adoption in Korea’ in 2007 and made IFRS application mandatory for all listed companies in Korea effective from 2011 in a bid to improve domestic and foreign investors’ perception of the transparency of financial statements provided by Korean entities, as well as to demonstrate Korea’s strong will to take part in the international movement towards a single set of high-quality global accounting standards.

Korea took the greatest care it could in deciding on the adoption since adopting IFRS meant a significant overhaul of Korea’s accounting system. As part of the effort to thoroughly deliberate on the matter, Korea formed ‘the IFRS Adoption Task Force’ in February 2006 to assess the appropriateness of IFRS adoption and prepare a roadmap thereof. Based on the discussions of the Task Force, ‘the Roadmap toward IFRS adoption in Korea’ was announced in March 2007. In accordance with the Roadmap, Korea chose to employ a Big-Bang approach in adopting full IFRS instead of taking the phased-in or convergence approach, and the single tier accounting system of Korea was switched to a two-tier accounting system (i.e., IFRS and Accounting Standards for Non-Public Entities). In order to effectively prepare for the IFRS adoption, the Korean government formed the IFRS Roadmap Implementation & Planning Task Force in May 2007 to focus on amending the accounting infrastructure including the related laws and regulations. In March 2009, the IFRS Implementation Support Task Force was established to deal with issues in practice arising from early adoption entities and to support the stabilisation of IFRS adoption process. The IFRS Implementation Support Task Force operated until November 2010.

Adoption of IFRS inevitably involves changing related systems of a country because an accounting system is closely related to the numerous laws and regulations of that country. Act on External Audit of Stock Companies that governs the accounting for companies in Korea was reformed to: lay a legal foundation so that K-IFRS, i.e., direct Korean translation of IFRS, would become effective accounting standards in Korea; set out the scope of entities subject to mandatory application of IFRS; and align the composition and names of the basic financial statements with those of IFRS. Furthermore, amendments were made to Financial Investment Services and Capital Markets Act regarding the period of submission for business reports and more, and Corporation Tax Law was also reformed in a manner that would neither undermine tax burden equality nor increase tax burdens on entities.

Korea put immense efforts into reorganising its entire accounting system to have it aligned with IFRS during its preparation period since the ‘the Roadmap toward IFRS adoption in Korea’ was announced in 2007. Despite the multi-angled efforts, however, constituents in Korea including the users, preparers and auditors of the financial statements encountered numerous challenges and difficulties in adapting to the new accounting standards, IFRS. As with any case of adopting a new system, difficulties unavoidably arise in the earlier stages of an adoption process. Thus, the hardship faced by the Korean constituents newly adapting to IFRS was almost predetermined as the constituents were required to leave behind the accounting practice they were so familiar with and adapt to a new accounting paradigm that emphasises: principles rather than specific rules; economic substance rather than legal form; consolidated financial statements rather than individual financial statements; and fair value measurement rather than historical cost measurement.

As part of the effort to address such difficulties, the KASB founded committees of experts in Korea to seek appropriate solutions; raised related issues at various international conferences; and submitted its comments to the International Accounting Standards Board (IASB) or IFRS Interpretations Committee (IFRS IC) when deemed necessary. Moreover, the KASB employed multidimensional channels to improve the general perception of IFRS in Korea, for example, the KASB carried out on- and off-line education sessions and held numerous seminars and conferences to improve the understanding of IFRS and emphasise the need to adopt IFRS.

Based on such diverse efforts put into the IFRS adoption, Korea is now expecting to see improved perception of the reliability of financial statements provided by Korean companies as well as enhanced status of Korea in the international accounting community. After the adoption of IFRS, Korean companies listed overseas were able to cut the cost of preparing dual financial statements, and the domestic constituents engaged in vibrant discussions on the application of principle-based IFRS. Furthermore, a number of non-listed companies, which are not subject to mandatory application of IFRS, started to voluntarily apply IFRS in order to secure transparency and reliability of their financial statements, and public sector organisations also started to apply IFRS from 2011 in a phased-in manner.

The IFRS adoption process in Korea was rather a bumpy ride: there were troubles relating to unexpected additional costs, lack of accounting professionals, unwelcoming public sentiment, etc. While trying to overcome the stumbling blocks, however, Korea realised that the followings are essential in promoting successful implementation of IFRS in any country: invigorating discussions about IFRS among constituents at home and abroad; preventing the psychological stress of stakeholders from getting exaggerated by providing sufficient education and promotion of IFRS; and receiving more robust support from the IFRS Foundation. Adopting IFRS means changing the financial reporting language of a country. Thus, such a significant event would be carried out smoothly only when it is accompanied by the unwavering will of the adopting country, reorganisation of the related systems, and strong support from the Foundation.

Adoption of IFRS is no longer an option. It has evolved into an indispensable means for literally all those engaged in this globalised economy of today. It is hoped that this report on Korea’s experience of preparing and implementing IFRS adoption would be helpful to those countries considering, planning, or at an early stage of IFRS adoption, and also provide some useful and practical guidance to the IFRS Foundation in promoting the spread of IFRS around the globe.

1. Introduction

In 2007, Korea announced its Roadmap for IFRS adoption and decided to fully adopt IFRS beginning from 2011, allowing voluntary early-adoption from 2009.

The full adoption of IFRS was decided as part of the effort to improve the accounting transparency of Korean entities and to demonstrate Korea's strong will to take part in the international movement towards a single set of high-quality global accounting standards.

Headed by the 14 entities and 59 entities that early-adopted IFRS in 2009 and 2010 respectively, a total of 3,126 entities, including 1,783 listed entities, 201 non-listed financial institutions and 1,142 non-listed entities, started to apply IFRS in 2011. With public organisations beginning to apply IFRS from 2011, the number of IFRS entities is expected to increase rapidly.

[No. of entities mandatorily applying K-IFRS as of at the end of Dec. 2011]

(Unit: entity)

Holding assets worth: (Unit: Korean Won)	Listed in the KOSPI	Listed in the KOSDAQ	Total
2 trillion or more	131	1	132
500 billion ~ 2 trillion	155	25	180
100 billion ~ 500 billion	334	284	618
Less than 100 billion	151	702	853
Total	771	1,012	1,783

The 2011 business reports filed by Korean companies were analysed and the result showed that no material inadequacies were found and the no serious problems were raised by constituents relating to the IFRS adoption. Furthermore, invigorated discussions among constituents at home and from abroad to promote faithful application of principle-based IFRS are contributing greatly to facilitation of early IFRS establishment in Korea.

Korea's successful adoption of IFRS was possible because the interested parties have thoroughly prepared for the IFRS adoption in a multilateral manner since the announcement of the Roadmap. In 2007, the Korea Accounting Standards Board (KASB) promptly announced and provided Korean translations of IFRS to help entities analyse IFRS and meet IFRS compliance requirements; The Korean government has continuously endeavored to harmonise the domestic systems with IFRS by amending the related laws and regulations; Korean companies actively engaged in preparation for implementation of IFRS, overhauling their accounting systems. Also, related parties including the government, Financial Supervisory Service (FSS), KASB, Korea Exchange, Korea Institute of Certified Public Accountant (KICPA), and business associations jointly put an immense amount of time and efforts into the education and promotion of IFRS in order to address the difficulties encountered by the constituents in practice.

This report is motivated by Korea's desire to share its experience of and the lessons it learned from preparing and implementing IFRS adoption. The remainder of this report proceeds as follows. Chapter 2 delineates the overall process of IFRS adoption. Chapter 3 provides an overview of the systematic overhauling of the related laws and regulations that accompanied the IFRS adoption. Chapter 4 lists a recollection of the difficulties experienced and remedies sought thereof during the early implementation stage. Chapter 5 analyses the actual effects of IFRS adoption. Chapter 6 shares the lessons Korea learned during the adoption process and suggests a few recommendations for those countries planning to adopt IFRS.

Providing the second-handed experience, it is hoped that this report helps those countries planning to adopt IFRS minimise trials and errors and gives some useful guidance to the IFRS Foundation and the IASB in promoting the global proliferation of IFRS.

2. The IFRS Adoption Process in Korea

2.1. Motivation

Korea had several motivations to adopt IFRS, among which are the following two primary factors.

First of all, Korea wanted to improve domestic and foreign investors' perception of the transparency of financial statements provided by Korean entities.

Alarmed by the East Asian financial crisis in 1997, Korea agreed with the International Bank for Reconstruction and Development (IBRD) to establish an independent private-sector accounting standard setter organisation in order to enhance accounting transparency in October 1998. As a result, the Korea Accounting Institute (KAI), within which the KASB is nested, was established in September 1999 and the Financial Supervisory Commission (currently Financial Services Commission, FSC) delegated the duty of setting and amending accounting standards to the KASB in July 2000. The KASB undertook the reform of Korean GAAP in accordance with IFRS to raise the quality level of Korean GAAP to that of the international standards at the request of the International Monetary Fund (IMF) and IBRD. As a result, it was considered about 90% convergence with IFRS has been achieved as of 2006.

However, 10% divergence arising from the needs of the Korean market, such as the limited adoption of fair value assessment and use of K-individual financial statements[1] as primary financial statements, allowed the international community to classify Korea as a jurisdiction that applies a set of accounting standards different to IFRS. Consequently, the international community's assessment of the Korean financial statements' transparency did not improve. Accordingly, so-called 'Korea discount' phenomenon persisted.

Therefore, there was an urgent need to improve the level of trust in accounting information by improving the quality of accounting standards; a contributing factor to the Korea discount. It is expected that the preparation of financial statements by IFRS, a set of internationally accepted GAAP, would improve the transparency of financial statements, increase the comparability of domestic and foreign financial statements, and ultimately, have a positive impact on the value of

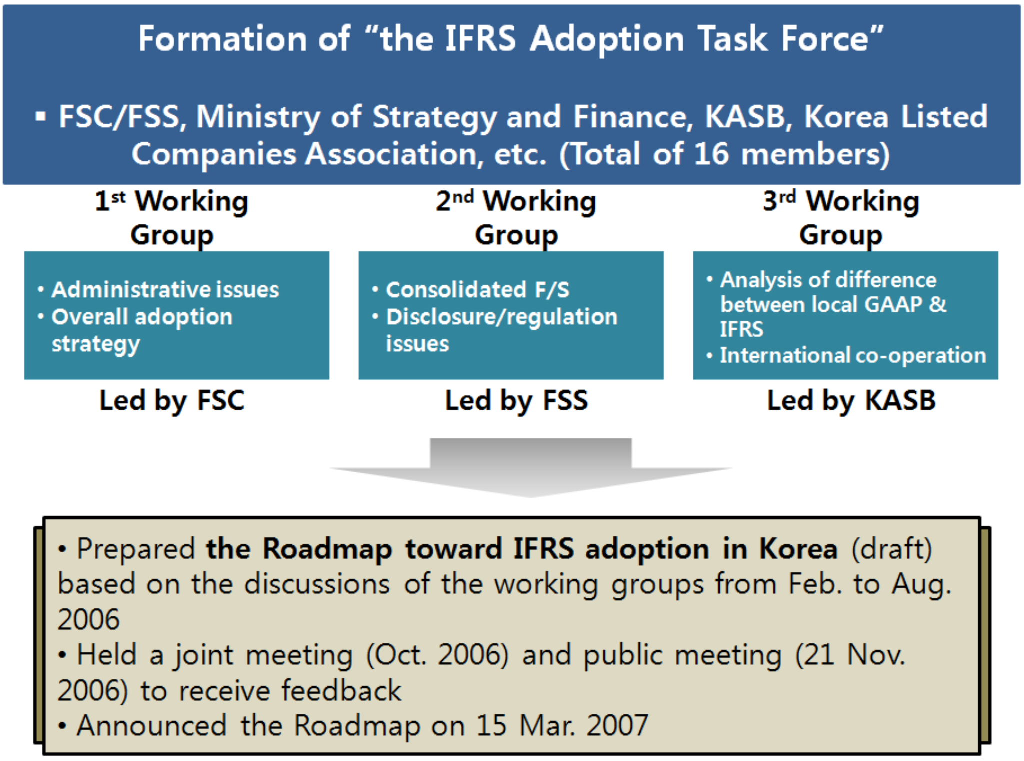
[1] While the individual financial statements referred to in IFRS are the financial statements of an entity with no subsidiaries, the individual financial statements referred to in Korean GAAP are the financial statements where the entity records its investments in its subsidiaries, jointly controlled entities and associates based on the equity method. Thus to make a distinction between the two, the latter are hereinafter referred to as K-individual financial statements.

Korean entities.

Another motivation of the IFRS adoption was an active response to the global trend of 'the convergence of accounting standards.' The globalisation of capital markets increased the demand for a single set of international GAAP. The demand was highest as of March 2007, evidenced well by the fact that about 100 countries including Australia and Canada either adopted or were about to adopt IFRS following the EU. Korea, a small open economy that heavily depends upon international trades, was left to accommodate this global trend, planning a roadmap for IFRS adoption.

2.2. Decision to adopt IFRS

2.2.1. Formation and Operation of 'the IFRS Adoption Task Force'



In February 2006, the Korean government organised a Task Force to assess the appropriateness of IFRS adoption and prepare a roadmap thereof. IFRS adoption would not only alter the accounting standards but also affect the overall accounting infrastructures including laws, disclosure regulations, regulatory measures, and external audits, requiring all relevant public and private constituents to collaborate on the formation of the Task Force.

Accordingly, 'the IFRS Adoption Task Force' turned out to comprise 16 members from the Ministry of Strategy and Finance (for tax issues), FSS, KASB, Korea Exchange, Korea Listed Companies Association, Korea Federation of Small and Medium Business, KICPA, accounting firms, and the Korea Accounting Association (KAA), among others, spearheaded by the FSC. The Task Force then held monthly meetings where related parties overviewed the issues and discussed implementation strategies.

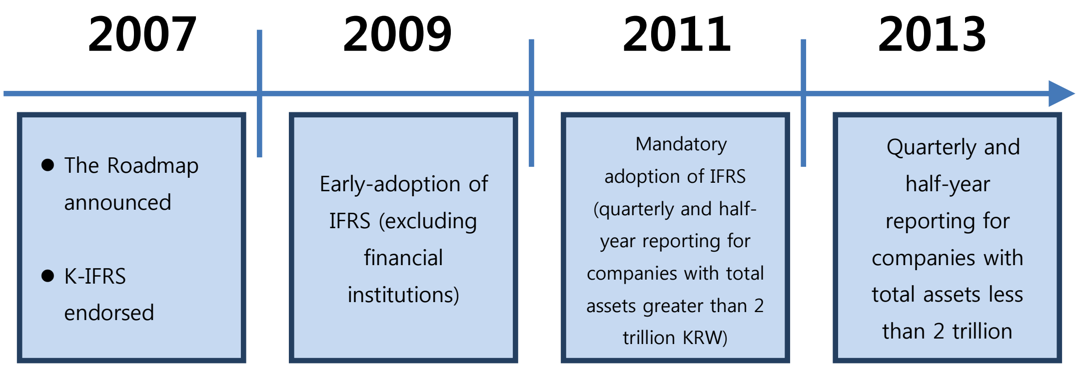
For the organisational efficiency, the Task Force formed three working groups. The first working group, led by the FSC, developed the overall adoption strategy and handled the administrative issues. The second working group, led by the FSS, focused on the consolidated financial statements as well as disclosure/regulation issues. The third working group, led by the KASB, analysed the difference between Korean local GAAP and IFRS and explored the opportunities for international co-operation and collaboration activities. Based on the discussions from the three working groups, the Task Force prepared 'the Roadmap toward IFRS adoption in Korea' in October 2006. In November 2006, 'Public meeting on the Roadmap toward IFRS adoption in Korea' was held to receive feedback from various sectors on the draft of the Roadmap. The 'Roadmap toward IFRS adoption in Korea' was finalised at the final meeting of the Task Force in February 2007 and announced on 15 March, 2007 after the thirteen months' efforts.

2.2.2. The 'Roadmap toward IFRS adoption in Korea'

According to the Roadmap finalised in March 2007, IFRS is mandatory for all listed companies in Korea effective from 2011, with permission of voluntary early-adoption for 2009 and 2010. IFRS is also mandatory for financial institutions with an exception that the application of IFRS to non-listed financial institutions is determined by the corresponding regulator.[2] The Roadmap did not allow voluntary early-adoption for financial institutions.

To minimise the compliance cost, the Roadmap required word-by-word translation of IFRS (i.e., K-IFRS) and endorsement of K-IFRS to be completed by the end of 2007. Also included in the Roadmap were the amendments of the laws and regulations relating to the accounting and disclosure prior to 2011.

The Roadmap also included the preparation of the quarterly and half-year financial reports, consistent with the consolidated financial statements under IFRS. The Roadmap required companies to prepare quarterly and half-year consolidated financial reports from 2011, while allowing companies having total assets worth less than 2 trillion KRW to have two additional years and prepare quarterly and half-year financial statements from 2013 to reduce the compliance burden.



[2] After the announcement of the Roadmap, the regulator decided to apply IFRS to most non-listed financial institutions including non-listed banks.

Finally, the Roadmap instituted an ensuing task force, the IFRS Roadmap Implementation & Planning Task Force, to oversee the implementation of IFRS adoption in detail.

Prior to the adoption of IFRS, all Korean entities applied a single set of accounting standards (one-tier, Korean GAAP). The Roadmap set out the plan where non-listed companies, unless they elect to apply IFRS, should use a separate set of simplified accounting standards based on Korean GAAP, 'Accounting Standards for Non-Public Entities,' instead of IFRS which was mandatory for listed companies and financial institutions. Accordingly, past Korean GAAP ceased to exist effective from 31 December 2010.

There are two distinctive features in the IFRS adoption in Korea.

First, Korea chose to employ a Big-Bang approach in adopting full IFRS at a certain point in time instead of taking the phased-in or convergence approach. While the Big-Bang approach being less manageable than the convergence approach, Korea believed that the Big-Bang approach is likely to be an ideal approach and could demonstrate Korea's strong will to take part in the international movement towards a single set of high-quality global accounting standards.

Second, the IFRS adoption switched the single tier accounting system of Korea (i.e., Korean GAAP only) to a two-tier accounting system (i.e., IFRS and Accounting Standards for Non-Public Entities). Behind the decision for the two-tier system lies the belief that IFRS will bring a trade-off between the benefits accrued for investors from decision-useful information provided by a set of high quality standards and the costs arising from the increased compliance burden borne by preparers. To ease the problem associated with this trade-off, the Roadmap required IFRS to be applied to only listed companies and financial institutions where the accounting transparency is highly demanded. The Roadmap assumed that non-listed companies, the stakeholders of which are much narrower than those of listed companies, can avoid the IFRS compliance burden by applying Accounting Standards for Non-Public Entities.

2.2.3. Activities of the IFRS Roadmap Implementation & Planning Task Force

For the efficient implementation of the Roadmap, a new joint public- and private-sector task force was necessary. The financial supervisory regulators, therefore, formed the IFRS Roadmap Implementation & Planning Task Force, a collaborative body comprising of related government agencies, preparers and accounting firms. The Task Force focused on amending the accounting infrastructure including the related laws and regulations. What the Task Force has worked on is listed in the following section (see Section 3, Preparatory steps).

2.2.4. Activities of the IFRS Implementation Support Task Force

The voluntary early-adoption year of 2009 saw the institution of the IFRS Implementation Support Task Force comprised of 16 related agencies. The goals of the Task Force were to deal with issues in practice arising from early adoption entities and to support the stabilisation of IFRS adoption process. The Task Force had five working groups on IPOs, disclosures, audit review, education and financial institutions, and served until November 2010, when the final preparation for the mandatory IFRS adoption was ready.

3. Preparatory steps

3.1. Laws and regulations

An accounting system is closely related to the numerous laws and regulations of a country and thus any changes made in the accounting system would endogenously involve changing the related systems of the country. Therefore, in order to successfully adopt IFRS in Korea, reform of the related laws and regulations had to be accompanied.

3.1.1. Act on External Audit of Stock Companies

Act on External Audit of Stock Companies (hereinafter the 'Act'), as the fundamental law that governs the accounting for companies in Korea, sets out the composition and names of the basic financial statements, the accounting standard setter, the scope of subsidiaries for consolidated financial statements, etc. The Act and Enforcement Decree of the Act were reformed as described below for the adoption of IFRS.

Firstly, the Act was reformed to align the composition and names of the basic financial statements with those of IFRS. That is, Balance Sheet was amended to Statement of Financial Position, Income Statement was amended to Comprehensive Income Statement, Retained Earnings Statement, which is required by Commercial Law, was excluded from the basic financial statements, and Notes were included as part of the financial statements.

Secondly, a legal foundation was laid so that K-IFRS, i.e., direct translation of IFRS from English to Korean, would become effective accounting standards in Korea.

Thirdly, the Enforcement Decree of the Act was amended to provide the scope of companies subject to mandatory application of K-IFRS, and to authorise the accounting standards, i.e., IFRS and Accounting Standards for Non-Public Entities, to provide the provisions relating to the controlling entity-subsidiary relationship and the scope of consolidation (which used to be set out in the Enforcement Decree before the IFRS adoption). Other necessary amendments were also made to certain provisions to harmonise with the IFRS environment.

Lastly, as consolidate financial statements became the primary financial statements with the adoption of IFRS, a review was carried out to determine whether the K-individual financial statements prepared from the legal entity perspective should be retained. The review concluded to retain the K-individual financial statements, considering that the K-individual financial statements are still necessary for the purpose of calculating dividends and taxes under other laws and regulations even after the IFRS adoption. As for the controlling entities that prepare consolidated financial statements, it was decided to require them to prepare separate financial statements based on IFRS, which are purported to be K-individual financial statements.

3.1.2. Financial Investment Services and Capital Markets Act

With the adoption of IFRS, amendments were made to Financial Investment Services and Capital Markets Act (hereinafter the 'Financial Services Act') regarding the period of submission for business reports and more.

Under the Korean GAAP system which focuses on individual financial statements, the controlling entity first filed the individual financial statements and then filed its consolidated financial statements one month after. However, under the IFRS system which focuses on consolidated financial statements, the Financial Services Act was reformed to require simultaneous filing of the individual financial statements and consolidated financial statements.

Furthermore, while consolidated financial statements were required to be filed only once a year at the closing under past Korean GAAP, the Financial Services Act was reformed to require filing of quarterly and half-year consolidated financial statements, in addition to the annual consolidated financial statements, to take account of IFRS focused on consolidated financial statements. However, as part of the effort to reduce the burden of preparing quarterly and half-year consolidated financial statements on small and medium sized entities (SMEs), the amended requirement was postponed for 2 years for SMEs, that is, SMEs are required to file quarterly and half-year consolidated financial statements starting from 2013.

Furthermore, the period for filing the consolidated quarterly and half-year financial statements was temporarily extended from 45 days to 60 days for the first two years of the IFRS adoption in order to provide the entities with a sufficient amount of time for preparation.

3.1.3. Corporation Tax Law

The tax authorities, i.e., Ministry of Strategy and Finance, pushed ahead with the reform of Corporation Tax Law (hereinafter the ‘Tax Law’) in order to be in line with the changes resulting from the IFRS adoption. To reform the Tax Law which is closely related to accounting standards, a task force team was formed to seek ways to reform the Tax Law in a way that addresses tax burden equality issues arising from applying different tiers of accounting standards and prevents increase in the entity’s tax burden or tax adjustment workload.

The tax authorities strived to find ways that would not undermine the fairness of the tax burden between the entities applying IFRS and others applying Accounting Standards for Non-Public Entities in accordance with the two-tier accounting standards. For example, the Accounting Standards for Non-Public Entities classify redeemable preference shares as equity. Therefore, payments to shareholders are treated as dividends and thus are not recognised as deductible expenses. In contrast, redeemable preference shares could be classified as liabilities under IFRS, which means that payments to shareholders could be recognised as interest payments and thus treated as deductible expenses. Consequently, this causes differences in tax burdens between the two standards. The government thus amended the Tax Law in accordance with the principle that similar tax burdens should be placed on similar economic activities so that all redeemable preference shares are classified as equity and all related expenses as dividends for tax purpose.

Entities were firstly worried that the tax burden would increase due to the IFRS adoption. For example, application of IFRS may cause the method of property, plant and equipment (PP&E)

depreciation to change, for example, from constant percentage of declining balance method to straight line method or the useful life of PP&Es to increase, thereby decreasing the entity's depreciation expenses in a year. This may cause an increase in the tax burden for some entities applying IFRS. Thus, the tax authorities amended the Tax Law to alleviate the tax burden resulting from the change of the depreciation method and useful life by allowing entities to make their tax adjustments using the depreciation method and useful life specified under Korean GAAP for PP&Es acquired before the end of 2013.

Moreover, concerns were raised that the difference between IFRS and the Tax Law would increase the burden of tax adjustments on entities. Consequently, the government set out the policy that where there is only a small difference in the tax burden between applying IFRS and applying the tax accounting, entities should be allowed to apply IFRS-based accounting in order to reduce the tax adjustment burden, and amended the Tax Law accordingly. For example, while IFRS has adopted the concept of functional currency[3], the Tax Law did not recognise such concept, resulting in the need for a tax adjustment. The Tax Law was amended to recognise functional currency accordingly.

3.2. Translation of IFRS

3.2.1. Copyright Agreement for IFRS adoption

The IFRS adoption process is similar to that of the EU. The translation of the original IFRS into Korean by the KASB must be followed by the official endorsement process of the FSC to become effective as official accounting standards in Korea.

As a non-English speaking nation, translating the English language of IFRS into Korean is an unavoidable process for Korea. Thus, there was a need to conclude an agreement between the IFRS Foundation and KASB on translating and using the standards so as not to infringe the Foundation’s intellectual property right. Accordingly, taking legal advice from law firms, the KASB negotiated with the IFRS Foundation about entering into a copyright agreement, and signed the agreement with the IFRS Foundation in September 2007.

The copyright agreement between the KASB and Foundation covers only the integral part of IFRS, and in accordance with this agreement, the Foundation receives a certain amount of consideration in return for waiving its right to assert ownership of IFRS translated into Korean in Korea. Korea adopted IFRS in full instead of modifying IFRS. The contract clearly defines the processes to be followed by the KASB when translating IFRS into Korean, thereby preventing any possibility of distortion or change of IFRS.

As for use of the parts other than the integral part of IFRS, e.g., basis for conclusions and guidance on implementing, a separate commercial agreement was signed between the KASB and Foundation in February 2009.

3.2.2. Announcement of the translated IFRS: K-IFRS

[3] Functional currency refers to the main currency used in the primary economic environment in which the economic entity operates. If a functional currency is used, it becomes possible to prepare the financial statements using a currency other than the Korean won.

The KASB translated the entire set of IFRS into Korean in accordance with the translation processes defined in the copyright agreement with the IFRS Foundation and exposed the translation to the public to receive feedback. In November 2007, the translation of IFRS was finalised and named K-IFRS to reflect the fact that IFRS is adopted in full. The finalised translation was immediately submitted to the FSC for endorsement and officially published in December 2007. Since then, whenever the IASB develops or amends an IFRS, the KASB also develops or amends the corresponding K-IFRS to be in line with the original IFRS.

3.3. Disclosure and regulatory requirements

3.3.1. Prior disclosure of the effects of IFRS adoption

Considering the significant effects IFRSs would have on the financial position and performance of entities, there was a need to require entities to provide the users of the financial statements with information relating to the effects of IFRS adoption on the entity in advance. Thus, the FSS issued a practical guideline in July 2007 recommending entities to disclose the effects of IFRS adoption in the notes to the financial statements, starting from two years prior to the adoption. Accordingly, entities disclosed the followings in the notes to the financial statements, starting from two years prior to the adoption of IFRS:

(i) Preparation plans for IFRS adoption and the progress thereof: Preparation plans, schedules, and the progress thereof including analysis of adoption effects, operation of an adoption task force team, education for the management and staff, and overhaul of the accounting system

(ii) Different accounting treatments between IFRS and Korean GAAP that are expected to have a great impact on the entity

(iii) Changes in the consolidation scope
- Whether it is needed to prepare the consolidated financial statements after the IFRS adoption, and any increase or decrease in the number of subsidiaries to be consolidated
- In case when an entity encounters a difficulty in disclosing the above information regarding changes in the consolidation scope, description of the difficulty experienced and its reason

(iv) Quantified information about the anticipated effects of IFRS adoption on the financial position and performance of the entity

In relation to the above disclosures, the KASB amended Statements of Korea Accounting Standards (SKAS) No. 21 'Preparation and Presentation of Financial Statements' (past Korean GAAP) as follows:

<Paragraph 99.2 was newly added to SKAS No. 21>

When a material change is anticipated in accounting standards due to the initial application of IFRSs, an entity is recommended to disclose as additional information any effects which may affect the preparation and financial statements of the entity.

<Effective from the fiscal year including Dec. 31 2008>

Furthermore, the FSS examined whether listed companies have implemented the prior disclosures in an appropriate manner, and guided the companies that did not implement the prior disclosures to sufficiently disclose the information via voluntary revision. Also, the FSS established, and provided the entities with, 'best practices' to help them prepare the notes relating to prior disclosures.

3.3.2. Disclosure of accounting firms' preparation for IFRS adoption

Another important interested party regarding the IFRS adoption, in addition to the entities preparing financial statements, would be the accounting firms and CPAs who engage in audits. Accordingly, the FSC amended Enforcement Rule of the Act on External Audit of Stock Companies in June 2009. In compliance with the amended rule, accounting firms described their status towards the adoption of IFRS in their business reports, e.g., specific teams and staff members dedicated to the firm's preparation for IFRS adoption as well as the education sessions, starting from 2008.

Furthermore, the FSS analysed the business reports of the accounting firms and examined how the firms were preparing for the adoption of IFRS. Based on the results, the FSS directed the accounting firms that lacked sufficient preparation to place thorough efforts in the preparation. The FSS continued to examine and oversee those firms to make sure that their quality control systems are adequate and appropriately operated in order to enhance and maintain the quality of their audit reports.

3.3.3. Revision of the regulatory requirements for different financial areas

As the scope of entities subject to mandatory application of IFRS was expanded in the Roadmap to include financial institutions, the regulatory requirements for each financial area had to be revised to adapt to the changes resulting from the IFRS adoption.

Accordingly, the FSS operated task force teams with the related institutions for each of the areas of banking, insurance, financial investment, credit card and microfinance, to examine and provide guidance on their current issues and preparation processes. At the same time, plans to revise the regulatory requirements for each different financial area were established and carried forward.

3.4. Entities' preparation for the IFRS adoption

To keep in step with the preparation work relating to laws and systems by the government, KASB and regulator to underpin implementation of IFRS in Korea, entities accelerated their efforts to prepare for the adoption themselves as it would be the entities that have to apply IFRS in practice. In order to check how prepared the entities subject to IFRS-based financial reporting were for the IFRS adoption, the FSS surveyed the entities subject to mandatory application in Jan. 2009 and again in Jan. 2010. The results showed that about 75.1% had started to prepare for the adoption as of Jan. 2010. Most of the entities not preparing for the adoption were SMEs. It was analysed that SMEs are relatively less affected by the adoption and need a relatively shorter period of preparation time of 3 to 6 months; and most SMEs were expected to start preparing for the adoption within the first half of 2010.

[Entities preparing for the IFRS adoption]

Holding assets worth: (Unit: Korean Won)	Survey results	
	Jan. 2009	Jan. 2010
2 trillion or more	80.9%	98.4%
500 billion ~ 2 trillion	54.5%	90.7%
100 billion ~ 500 billion	22.3%	77.0%
Less than 100 billion	11.1%	66.1%
Total	26.5%	75.1%

4. Implementation: Challenges and Responses

Korea put immense efforts into reorganising its entire accounting system to have it aligned with IFRS during its preparation period since the Roadmap toward IFRS adoption in Korea was announced in 2007. Despite the multi-angled efforts, however, constituents in Korea including the users, preparers and auditors of the financial statements encountered numerous challenges and difficulties in adapting to the new accounting standards, IFRS. As with any case of adopting a new system, difficulties unavoidably arise in the earlier phases of an adoption process. Thus, the hardship faced by the Korean constituents newly adapting to IFRS was almost predetermined as the constituents were required to leave behind the accounting practice they were so familiar with and adapt to a new accounting paradigm that emphasises: principles rather than specific rules; the economic substance rather than legal form; consolidated financial statements rather than individual financial statements; and fair value measurement rather than historical cost measurement.

In this chapter, the difficulties faced by the users, preparers and auditors of the financial statements when applying IFRS, as well as the measures taken by the authorities such as the accounting standards setter and regulators to remedy such difficulties, are described in detail.

4.1. Principle-based standards

4.1.1. Change of standards

The Korean GAAP before IFRS adoption set out specific and detailed requirements on various different transactions and events. In contrast, IFRS focuses on providing basic principles based on 'substance over form', without including a great number of concrete guidance.

The ‘principle-based’ feature of IFRS can be found in the fact that there are no suggested specific forms for financial statements such as the statement of financial position and the statement of profit or loss and other comprehensive income, and that little guidance is provided for how to present specific line items in the financial statements. Hence, companies are allowed to have much discretion in presenting their financial statements except for several required items.

Such a feature is also reflected in the requirements as to measurement and recognition, which means that preparers are required to exercise their professional judgement in determining accounting treatments in practice. This is why the note disclosure section under IFRS is ever expanding; the disclosure section needs to provide more information, which complements the information on the face of the financial statements, to help users in their decision making

4.1.2. The effects

One of the most notable effects of IFRS adoption on preparers is that senior management’s awareness of the importance of financial reporting has considerably heightened. The ‘principle-based’ feature of IFRS was the main cause for such a change; after IFRS adoption, companies are encountering many more situations than before, where they should exercise their judgement in determining significant accounting treatments that best conform to the economic substance, which inevitably piqued interest of senior managements in financial reporting.

Under IFRS, simple comparison was no longer adequate when comparing the financial statements of different companies. The users, especially credit rating agencies and financial analysts, are now required to equip themselves with higher-level of financial acumen and analytic skills so that they can comprehend the economic substances of different companies by examining and analysing the information provided in the note disclosures.

The sharp increase in the volume of note disclosures has resulted in the increased, heavy workload on preparers and greater audit risk for auditors overlooking errors in the note disclosures.

4.1.3. Issues

The risk of diversity in practice has been increased as IFRS requires a considerable degree of professional judgement. It was found that some companies continued to follow the accounting treatments under past Korean GAAP, and in some cases, auditors, having differing views, arrived at different accounting treatments regarding exactly the same transactions. In particular, the issue of comparability among different financial statements arose after the IFRS adoption – in contrast to past Korean GAAP under which key performance indicators, such as operating profit or loss, had been considered as highly important, such indicators are no longer required to be disclosed under IFRS. Consequently, accounting treatments for operating profit or loss varied considerably among companies: some did not disclose the information; some disclosed the information but stuck to the rules specified in past Korean GAAP; or others arbitrarily determined the scope of operating profit or loss to their own needs.

Moreover, great financial burden was put on companies as they could not but allocate more financial resources into training and hiring accounting professionals in order to elevate and improve their understanding of IFRS as well as their professional judgement, because they were required to use more discretion in determining accounting treatments that conform to the economic substance.

Also, those in practice, very much accustomed to 'rule-based' standards, have expressed concerns over the lack of specific requirements and continuously argued that they need as detailed guidance and interpretations as past Korean GAAP in order to adapt to 'principle-based' IFRS.

4.1.4. Measures

4.1.4.1. IFRS education and operation of Help Desk for IFRS

It is necessary to understand the underlying principles of IFRS, including the purpose and conceptual framework of IFRS, so as to nurture the professional judgement required for applying 'principle-based' IFRS. To this end, the FSS, KASB, KICPA, Korea Listed Companies Association, etc., have provided preparers and auditors with the relevant education at a very low price, or for free, since December 2007, after the announcement of the Roadmap toward IFRS adoption in Korea.

[K-IFRS education conducted by each organisation]

Year	FSS		KASB		KICPA		KLCA	
	No. of times	Hours	No. of times	Hours	No. of times	Hours	No. of times	Hours
2007	-	-	2	42	-	-	4	35
2008	2	7	6	35	-	-	14	151
2009	10	22	12	87	10	60	29	285
2010	17	26	4	16	1	20	28	395
2011	17	61	10	33	1	4	31	385
2012	13	41	10	36	1	4	39	472
Total	59	157	44	249	13	88	145	1,723

Despite these efforts, listed SMEs and companies in provinces outside of Seoul were at a disadvantage in terms of preparing for IFRS implementation, due to the burden of cost and the lack of human resources, since IFRS education sessions and seminars took place mainly in Seoul, the capital of South Korea. The KASB, thus, launched on-line education programmes in June 2008 to help such disadvantaged companies tap into assistance with regard to the IFRS implementation. The on-line education programmes encompassed various modules, including 'Key features of each IFRS standard', 'Comparison of IFRS and Korean GAAP', 'Learning IFRS by illustrations', 'Impacts on the financial statements', 'Current IASB activities', etc. Modules such as 'Strategies for implementation of IFRS system' and 'Practical case studies' were also added to the programmes to assist listed SMEs with their IFRS implementation.

Meanwhile, Korea began to include IFRS into the scope of the uniform Korea CPA examination starting from 2010 to meet the expected rise in the demand for IFRS professionals as 2011 was the first year of mandatory application of IFRS.

In addition, the KASB established the 'Help Desk for IFRS' in Oct 2009 to help listed SMEs with the difficulties they encounter when applying IFRS, because SMEs tend to lack accounting professionals who could properly deal with IFRS.

4.1.4.2. Operating IFRS Implementation Committee

It was expected that there would be many technical enquiries relating to IFRS during the early phase of IFRS implementation as more judgement is required under 'principle-based' IFRS than under 'rule-based' past Korean GAAP.

The KASB has provided practical education sessions and held public round table meetings on a regular basis, and responded proactively to the demand for interpretations so as to have principle-based IFRS successfully received in the domestic market as early as possible.

Furthermore, the KASB founded the 'IFRS Implementation Committee' in March 2009 with 14 committee members, consisting of representatives from preparers, audit firms, academics, etc., for the purpose of discussing practical issues in a timely manner.

The Committee[4] was formed to identify issues relating to IFRS application that companies may encounter during the early stage of IFRS adoption and to provide educational guidance to those issues, thereby bedding down IFRS successfully and providing practical assistance. The educational guidance provided by the Committee intended to help the constituents understand IFRS better, rather than to provide authoritative interpretations. Further, the Committee was to officially raise issues to the IASB or IFRS IC for deliberation if deemed necessary.

4.1.4.3. Operating Task Force team for Early Adopters

The government and regulatory authorities formed and managed the 'Task Force team for Early Adopters' in order to identify and resolve issues that the companies, which early-adopted IFRS in 2009 or 2010, are encountering, as well as to continuously monitor the progress of IFRS implementation by these companies. The Task Force team consisted of the FSC, FSS, IFRS early adoption companies, and audit firms. Through this Task Force team, the early adoption companies were able to receive consultation over the effects of IFRS adoption on the financial reporting requirements, audit, and relevant laws and regulations.

4.1.4.4. IFRS Conference in Seoul

On 29 and 30 July 2009, the IFRS Foundation held an IFRS Conference in Seoul. The Chair of the IASB and many other IASB members attended the conference to talk to the constituents about the application of IFRS.

By holding events such as the IFRS Conference and meetings with the Chair of the IASB, the

[4] The IFRS Implementation Committee operated until 2010, right before the mandatory application of IFRS began in Korea.

KASB provided its domestic constituents, who were about to face mandatory IFRS application, with the chance to share and listen to the experiences of other countries that had already adopted or been planning to adopt IFRS.

4.1.4.5. Requiring mandatory disclosure of operating profit or loss

After deliberating ways to resolve the issue of disclosing profit or loss raised by many domestic constituents (refer to paragraph 4.1.3), the KASB decided to require companies to disclose operating profit or loss under IFRS, either on the face of the statement of profit or loss and other comprehensive income or in the notes to the financial statements, and also require to disclose in the notes the differences between the operating profit or loss under IFRS and under past Korean GAAP, by adding a paragraph – i.e., 'Han' paragraph – to K-IFRS 1001 'Presentation of Financial Statements'[5].

Adding the 'Han' paragraph means that companies are required to disclose more items than those required by IFRS, and such an addition is one of the permitted modifications to IFRS under the agreement[6] with the IFRS Foundation.

This measure, however, did not fully satisfy the needs of the local constituents. The constituents continued to raise concern over the comparability issue under IFRS on the grounds that items reported as operating profit or loss vary considerably for each company and the bases for reporting certain items as operating profit or loss was rarely disclosed by the companies.

In response, the KASB has explored solutions more thoroughly to address the concern. The KASB carried out a comprehensive research into all issues relating to operating profit or loss and listened to the constituents' concerns directly through forums and round table meetings. Furthermore, the KASB put up this topic of operating profit or loss for discussion at the International Forum of Accounting Standards Setters (IFASS) and also discussed with Mr. Hans Hoogervorst, Chair of the IASB, at the seminar on his visit to Korea.

Based on the thorough and comprehensive review as mentioned above, the KASB has amended Korean IFRS 1001 by adding 'Han' paragraphs that can provide clearer guidance in reporting operating profit or loss, in order to enhance the comparability between companies over operating profit or loss. Undoubtedly, this amendment of requiring additional disclosure does not undermine the principles of IFRS and was sufficiently discussed with the IASB in advance.

4.2. Accounting treatment reflecting economic substance

IFRS requires accounting treatments that reflect the transactions' economic substance rather than its legal form.

4.2.1. Change of standards

[5] K-IFRS 1001 is the translation of IAS 1.

[6] The agreement refers to the written agreement between the Korea Accounting Standards Board and the IFRS Foundation regarding the adoption of IFRS.

4.2.1.1. Classifying redeemable preference shares into liabilities

Under past Korean GAAP, redeemable preference shares, of which the holder has the right to call payment, are classified as 'equities' if the shares meet the definition of stocks as defined in related law such as Commercial Law. However, according to IFRS, such stocks are classified as liabilities if the issuer bears the contractual obligation to redeem the stock regardless of the form of the stock.

4.2.1.2. Recognition of loan loss provision and emergency risk reserve

Under past Korean GAAP, a loan loss estimation calculated in accordance with reasonable and objective criteria (or for financial institutions, the greater of an amount based on the minimum reserve ratio set out in regulatory guidance and an estimate based on the ratio of loss experience) is established as loan loss provision. Under IFRS, however, an incurred loss estimation is established as a loan loss provision when there is objective evidence for impairment[7].

Furthermore, under past Korean GAAP, a portion of the premium against emergency risk is recognised as provision and accumulated every period as a line item of emergency risk reserve. When an insured event arises, this provision is offset first with the insurance proceeds' payment. However, a future payment obligation of a current insurance contract is not allowed to be recognised as a liability, according to IFRS. Thus, the emergency risk reserve is no longer recognised as liability under IFRS.

4.2.1.3. Transfer of receivables

Under past Korean GAAP, a securitisation that meets certain requirements of the related law is recognised as a true sale. However, even if a securitisation meets all the requirements of current law relating to securitisation, it is not necessarily recognised as a true sale under IFRS.

Moreover, according to past Korean GAAP, when an exporting entity transfers foreign receivables with the right of recourse to a financial institution, such a transaction is accounted for as a true sale. However, IFRS does not recognise it as a true sale.

4.2.2. The effects

4.2.2.1. Classifying redeemable preference shares into liabilities

Contrary to past Korean GAAP under which redeemable preference shares are classified as equity, IFRS classifies redeemable preference shares as liabilities and thus results in reduced equity. Furthermore, under past Korean GAAP, dividends on redeemable preference shares do not affect profit or loss because they are accounted for as appropriation of retained earnings. Under IFRS, in contrast, dividends on redeemable preference shares are accounted for as financial costs for borrowing, thus reducing net income. As a consequence, the debt ratio, in particular, becomes higher under IFRS than under Korean GAAP.

[7] In order to address the problem of delayed loss recognition, the impairment recognition model based on expected loss will be replacing the impairment recognition model based on incurred loss under IFRS in the near future.

4.2.2.2. Recognition of loan loss provision and emergency risk reserve

A loan loss provision accumulated in accordance with IFRS is generally expected to be smaller than the amount accumulated under past Korean GAAP. This difference decreases loan loss expense, increases net income and thus increases equity.

As the emergency risk reserve is not recognised as provision, the existing accumulated reserve is classified as an item of retained earnings which is a part of equity, thereby reducing liabilities.

4.2.2.3. Transfer of receivables

Some transactions such as the disposal of non-performing assets in accordance with the law relating to securitisation are not recognised as true sales. In such a case, recognition of a disposal of non-performing receivables may be delayed, which in turn increases the debt ratio. Exporting entities would avoid attaching the right of recourse when transferring receivables, and the exporting entity's financial ratios would deteriorate as the transfer of foreign receivables with the right of recourse is classified, not as a true sale, but as a borrowing transaction.

4.2.3. Issues

Classifying redeemable preference shares into liabilities, recording transfers of foreign receivables as liabilities, and not recognising an asset sale in the form of securitisation undermined the entity's financial position by, e.g., causing the entity's debt ratio to rise. Consequently, many entities are looking for other means to increase their equities and thus to decrease their debt ratio. The change of criteria for estimating loan loss provision led to the increased cost to the entity resulting from the change of the entity's accounting system.

4.2.4. Measures

4.2.4.1. Classifying redeemable preference shares into liabilities

The KASB strengthened its communication with various related government agencies in many ways. For example, the KASB raised the issue of redeemable preference shares to the Ministry of Justice and actively voiced its views in the process of amending Commercial Law in a bid to address the precarious situation resulting from the conflict between Commercial Law, which requires classification of redeemable preference shares as an equity regardless of the economic substance to achieve capital adequacy, and the accounting standards. The amendment of Commercial Law enabled hybrid bonds to have the characteristics of both stocks and bonds. Based on the amended Commercial Law, entities are taking measures to adapt to the accounting standards that reflect the economic substance, by issuing hybrid bonds having contractual terms and conditions that would allow the hybrid bonds to meet the definition of equity.

4.2.4.2. Recognition of loan loss provision and emergency risk reserve

Entities, auditors, regulators and the KASB have worked closely with each other to discuss the issue of recognising loan loss provision and emergency risk reserve for the successful application of IFRS in Korea. The regulators decided that the difference between the minimum required loan loss provision to be accumulated as set forth in the regulatory guidance and the amount of loan loss provision in accordance with the accounting standards should be accumulated as a loan loss reserve, an equity item. By doing so, not only would the entity's soundness be sufficiently maintained even if the amount of provision is reduced, but also the entity would be able to prepare against future credit loss by accumulating the loan loss reserve within the entity instead of distributing the reserve, e.g., in the form of dividends. Moreover, the tax authorities allowed IFRS-applying insurance companies to exclude the emergency risk reserve from the taxable income. This move was to ease the tax burden which may increase with the increased undistributed profit as the emergency risk reserve is no longer classified as liability under IFRS.

4.2.4.3. Transfer of receivables

Entities were induced to dispose of their non-performing receivables using methods which transfer the risk and reward to the transferee, e.g., via straight sales, rather than securitisation. In other words, entities such as financial institutions are expected to pursue a sale method that meets the requirements of a 'true sale' and choose a sale structure that does not establish a parent-subsidiary relationship.

The KASB, Ministry of Strategy and Finance, Korea Eximbank and other related organisations engaged in lively discussions to promote international trade finance. In order to minimise the effect of the IFRS adoption, proposals were made to invigorate non-recourse forfaiting and export factoring as ways to replace the existing business activities of purchasing bills of exchange. In fact, these new forms of international trade finance are being utilised in practice.

4.3. Consolidated financial statements as primary financial statements

4.3.1. Change of standards

While the Act on External Audit of Stock Companies[8] under past Korean GAAP required only the controlling entities at the top of the group, listed companies with subsidiaries, and financial institutions to mandatorily prepare consolidated financial statements, IFRS now requires all controlling entities[9] to prepare consolidated financial statements.

Furthermore, the Act under past Korean GAAP required entities to decide the scope of consolidation, taking into consideration whether the entity falls into the specifications set out in the Act, such as those relating to the voting rights of the controlling entity and the power to appoint and dismiss members of the board of directors. IFRS[10], in contrast, provides three

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[8] Under the Korean GAAP system, Act on External Audit of Stock Companies set out the criteria of a controlling entity.

[9] If an entity meets all of the conditions set out in paragraph 10 of IAS 27, the entity may choose not to prepare consolidated financial statements.

[10] At the time of the IFRS adoption, the standard relating to consolidation was IAS 27, but in May 2011, amendments were made and IFRS 10 was issued accordingly.

factors to be considered in determining control, as well as other various assistive indicators, in accordance with a single control model.

[Main differences in consolidation scope between past Korean GAAP and IFRS]

Cases subject to change of consolidation scope:	Inclusion in consolidation scope		Effects of IFRS adoption
	IFRS	Past Korean GAAP	
* Owning more than 50% of a small-sized entity that holds assets less than 10 billion KRW	Yes	No	Increased scope of consolidation
* Owning more than 50% of an entity not in a form of corporation, e.g., private equity fund	Yes	No	
* Owning 50% or less of an entity but being the largest shareholder of more than 30%	No	Yes	Decreased scope of consolidation

Meanwhile, even if IFRS focuses on consolidated financial statements, the financial statements prepared from the legal entity perspective would be still necessary for the purposes of calculating dividends and taxes and meeting other information demands. Thus, controlling entities are required to prepare separate financial statements together with the consolidated financial statements.

4.3.2. The effects

Before the adoption of IFRS, K-individual financial statements, i.e., individual financial statements under past Korean GAAP, in which the entity's investments in joint ventures, associates, and subsidiaries are accounted for using the equity method, were taken as primary financial statements. Consolidated financial statements were taken as supplementary financial statements. Naturally, most users of the financial statements placed more importance on the K-individual financial statements filed prior to the consolidated financial statements.

However, the importance of consolidated financial statements has increased as they became the primary financial statements after the adoption of IFRS. Furthermore, the focus of the capital market is shifting from the value of individual entities to the maximised value of consolidated entities. The focus of the filing system for entities' annual, quarterly and half-year reports has also changed to consolidated financial statements.

As for the scope of consolidation, the overall number of subsidiaries subject to consolidation has increased due to the inclusion of subsidiaries holding assets less than 10 billion KRW and special purpose entities. On the other hand, the total assets in consolidated financial statements have decreased because of the exclusion of large subsidiaries owned 50% or less by the controlling entity (lacking de facto control).

4.3.3. Issues

While consolidated financial statements are viewed as primary financial statements and separate financial statements are treated as supplementary financial statements under IFRS, much more importance is placed on separate financial statements in Korea. This is because the Enforcement Decree of the Act was amended to require separate financial statements to replace the K-individual financial statements and the separate financial statements are thereby used in calculating taxes and dividends.

Although the K-individual financial statements emphasising the economic substance of the entity were replaced by separate financial statements focusing on the legal form of the entity as currently required by IFRS, the laws and regulations related to tax and dividend were unable to incorporate such a change in a timely manner. This caused confusion in certain areas.

For example, the entity's intragroup transactions with subsidiaries, joint ventures, and associates are not required to be eliminated in the separate financial statements. Thus, it is possible for an entity to arbitrarily manipulate current period profit or loss, and consequently avoid legal and institutional requirements. It has also become possible for an entity to reduce the amount of its subsidiary shares by applying the cost method under IFRS, instead of using the equity method required to account for the subsidiary shares in the K-individual financial statements. By doing so, the entity may be able to avoid the requirements imposed on holding companies.

4.3.4. Measures

As part of the effort to relieve the burden on the entities holding assets worth less than 2 trillion KRW, the government temporarily exempted those entities from preparing quarterly and half-year consolidated financial statements until 2012. However, note disclosure of equity method information related to subsidiaries and associates is still required of those entities in their quarterly and half-year separate financial statements, in order to enhance the comparability of information among entities and periods.

In the meantime, the KASB proposed to the IASB to additionally allow the equity method in the IFRS requirements, which currently allow only the cost method or fair value method in accounting for investments in subsidiaries, joint ventures, and associates in the separate financial statements. The proposal was tentatively designated as one of the short-term projects of the IASB. If accounting under the equity method is allowed in the separate financial statements, it is highly likely that the issues mentioned above would be resolved.

4.4. Expansion of the scope of fair value accounting

The scope of fair value measurement has been expanded. IFRS either requires or permits a large majority of financial assets and liabilities to be measured at fair value.

4.4.1. Changes of standards

Major changes under IFRS are as follows.

4.4.1.1. Financial assets and financial liabilities

Financial assets and liabilities should be measured initially at fair value. As for the financial assets and liabilities designated under the fair value option, the changes resulting from subsequent fair value measurement should be recognised in profit or loss.

4.4.1.2. Post-employment benefit plans and plan assets

Under past Korean GAAP, the related liabilities and expenses are recognised by estimating the post-employment benefit on the assumption that all employees under the plan are to retire at the reporting date. Under IFRS, in contrast, the related liabilities and expenses are recognised by estimating, and discounting at a certain discount rate, the amount of future cash outflows (in the form of either lump sum or pensions on retirement), taking into consideration the actuarial assumptions such as rates of salary increase, mortality, and employment turnover. The plan assets (e.g., pension on retirement), which have been accumulated outside the entity to fund payments of pension, should also be measured at fair value.

4.4.1.3. PP&E, intangibles and investment properties

When the revaluation model is chosen for a class of PP&E[11] or intangibles, the subsequent change in fair value of the asset is recognised in equity. For investment properties such as land and buildings held for the purposes of earning rental income or seeking capital appreciation, any subsequent changes in fair value of the assets are recognised in profit or loss when the revaluation model is chosen. As for biological assets, they shall be measured at fair value less costs to sell.

4.4.1.4. Goodwill

In contrast with past Korean GAAP, IFRS does not require or permit entities to amortise goodwill, but requires performing annual impairment tests of goodwill. However, more frequent testing is required if there is an indication of impairment, i.e., the test should be performed more than once a year.

4.4.2. The effects

With the increase in the number of items of assets and liabilities subject to fair value measurement, entities are now able to provide more relevant financial information, which enables preparers and users of the financial statements to utilise such information in their economic decision making. However, entities are exposed to a greater level of volatility in financial statements as the changes in fair value are directly reflected in either profit or loss, or equity. Such changes are more susceptible to uncontrollable external factors, e.g., market interest rates. Thus, external factors have a greater impact on the financial statements than the entity's operation results.

4.4.2.1. Financial assets and financial liabilities

[11] Korean GAAP adopted the revaluation model for property, plant and equipment in 2008, which was right before the early adoption of IFRS were allowed in 2009.

Derivatives included in the expanded scope and financial assets and financial liabilities designated as 'at fair value through profit or loss' are measured at fair value at each reporting date, and the resulting changes in fair value should be reflected in profit or loss. As for available-for-sale financial assets, any changes in fair value should be reflected in equity. Consequently, this may lead to a greater exposure to volatility in profit or loss, or equity.

4.4.2.2. Post-employment benefit plans and plan assets

Entities with certain characteristics, such as longer average service periods, a large number of employees, or defined benefit plans with progressive benefit formula, may easily be affected by even a minor change in actuarial assumptions—in particular, financial assumptions (e.g., discount rates). That is, the amount of defined benefit obligations under post-employment benefit plans may sharply increase or decrease in such cases, and such change may have a significant impact on profit or loss, or equity.

4.4.2.3. PP&E, intangibles and investment properties

Appraisal gain arisen from revaluation shall be recognised in other comprehensive income, leading to an increase in equity. The excess of appraisal loss over appraisal gain, too, shall be recognised in profit or loss (i.e., as appraisal loss arising from revaluation), which is conducive to high volatility in profits. When a PP&E's value appreciates, choosing the revaluation model may result in an increase in the carrying amount of the asset, thereby decreasing the asset-to-liability ratio.

Furthermore, if investment properties such as land and buildings are measured by the revaluation model, the resulting increase in the appraisal value will contribute to larger profits.

4.4.2.4. Goodwill

When no impairment loss is recognised based upon the assumption that there is no indication of impairment, IFRS would report a higher profit than past Korean GAAP requiring amortisation of goodwill over a period. If intangible assets are not properly recognised and if most of the excess consideration over the fair value of acquired assets and assumed liabilities is recognised as goodwill in a business combination, then profit or loss may be abnormally affected due to the recognition of one-time impairment losses possibly caused by changes in the future business environment or performance.

4.4.3. Issues

Fair value information would be useful to the users only when it is measured in a reliable manner. Financial markets in Korea have less diversity in the types of financial instruments compared to the markets in developed countries. Thus, there is a high possibility that less reliable valuation inputs would be used to measure fair values because relevant information on similar instruments may not be available in the markets. In particular, there are many cases where an active market for non-financial assets and liabilities is unavailable or not existent at all. Thus, valuation inputs based on the valuer's judgement may be used, thereby causing doubts to arise over the reliability and usefulness of the fair value measurements. In order to obtain truly useful fair value measurements, the current valuation processes, methods, analyses, and systems relating to fair value measurement would have to be improved and related infrastructures should be established to verify the valuation results.

4.4.3.1. Systems and manuals for fair value measurement

Since fair value measurement requires a considerable level of judgement and assumptions, there is an inevitable risk that the accounting information may be misrepresented due to the judgement or measurement errors reflected in the information. Thus, to mitigate such risk, it was necessary to: enhance the knowledge and understanding of the related methodology; provide a consistent set of implementation guidance; publish manuals and establish systems for carrying out the related education programmes; and, most of all, promote the spread and sharing of such manuals and systems among the wide spectrum of constituents.

4.4.3.2. Independent valuation experts

In Korea, external appraisal companies have traditionally performed most of the appraisal for PP&Es, and as the IFRS adoption expanded the scope of fair value measurement and increased the effect of fair value measurement on the financial statements, the role of valuation experts, including appraisal companies, having the expertise and independence has grown greater than ever. With the increased importance of valuation experts, it became extremely important to secure the reliability of the information provided by such valuation experts.

4.4.3.3. Improvement on regulatory systems

As fair value measurement gained greater importance in the financial statements, the regulator that oversees financial statement disclosure felt the need to modify the disclosure and regulatory systems accordingly. Furthermore, it was necessary to improve the regulatory system to appropriately manage and oversee valuation experts as it became crucial to ascertain the independence and eligibility of external valuation experts performing valuation work.

4.4.4. Measures

Accounting related bodies in Korea, including the KASB, FSS, KICPA, and KAA, have been clearly aware that there was a need to improve the overall system relating to fair value measurement in order to promote successful implementation of IFRS in Korea. Consequently, they have analysed the effects in the domestic markets and sought proactive measures to address the identified issues.

In particular, the KASB has been actively engaged in a variety of activities at home and abroad in order to identify in advance the effects of fair value accounting under IFRS on the domestic markets as well as the issues that may arise in practice, and seek proactive measures thereon. Locally, the KASB held rounds of forums and symposiums with domestic constituents to share, and form consensus on, common concerns about the issues relating to fair value measurement. On the international stage, the KASB participated in various international meetings to discuss the fair value related issues identified in the Korean market and seek solutions and guidelines thereof, so that the IASB would consider the issues in the standard setting process.

4.4.4.1. Promoting the industry of valuation experts

The adoption of IFRS has given rise to an increase in demand for fair value valuation. Accordingly, various valuation experts in asset valuation companies affiliated with credit rating agencies, property appraisal companies, or accounting firms have improved their internal quality control processes from the IFRS-based point of view in order to enhance the reliability of their valuation work. As for newly raised issues relating to fair value measurement, the regulators, accounting standards setter and academia have been jointly discussing the issues and seeking solutions thereof.

4.4.4.2. Valuation Expert Group and the activities

In October 2008, the KASB jointly held a symposium on *'IFRS and Fair value measurement: Prospects and Tasks'* with accounting firms and academia. In this symposium, various topics were discussed in depth, including the industry outlook and practical applicability of fair value accounting under IFRS, and case studies of valuation systems in advanced countries and their local implications.

In the case of a defined benefit obligation under IFRS, an applicable discount rate may differ depending on whether a high quality corporate bond market is a deep market or not. To address the issue, the KASB held a meeting in January 2010 with experts on issuance and trading of bonds to discuss whether the high quality corporate bond market in Korea qualified as a deep market. Discussions at the meeting were made public so that entities may use the information when they determine the discount rates for valuing defined benefit obligations.

At the first meeting of the Emerging Economies Group (EEG)[12] of the IASB, held in July 2011, various issues related to the application of fair value accounting were discussed and the KASB actively participated in the discussion with regard to the issues raised in Korea. In addition, in an effort to reflect the issues of the Korean constituents, the KASB has formulated local views and provided comments to the interim works of the 'Valuation Expert Group', which is operated by the IASB, to seek solutions and solicit views about the practical issues of fair value measurement guidelines.

In 2007, the FSS commissioned a research project on the topic '*Toward enhancement of quality of guidance and experts in fair value measurements*' so as to identify domestic issues at an early stage and seek solutions thereof. The research result included ways to improve the local infrastructures for fair value valuation and related case studies from overseas, as well as policy proposals to enhance the quality of fair value experts and the surrounding regulatory environments.

4.4.4.3. Academia

[12] The Emerging Economies Group (EEG) of the IASB was established by the IFRS Foundation in July 2011 to enhance the influence of emerging economies in the development process of IFRS.

There has been a general consensus within academia about the need to address the fair value related issues arising from the IFRS adoption and thus researches relating to the issues have been actively carried out by many academics. For example, in December 2010, the Fair Value Measurement Group was launched by the KAA to carry out research into fair value measurement. The Group was established to address the growing importance of fair value measurement and the related accounting issues since the IFRS adoption. The KICPA also commissioned the Group to take on a research project on the topic of '*Valuation of intangibles and goodwill in a business combination and their impairment*', and the Group published the results of the research project in June 2011. In the research report, the Group provided not only the theoretical grounds for impairment test of intangibles and goodwill, but also the comprehensive review of, policy proposals for, and suggestions for improvements about the overall domestic infrastructures related to fair value measurement.

The results of these researches were distributed to those in practice – the report not only helped entities in valuing fair values but also allowed auditors to utilise the research results when auditing the fair value measurements recognised in the financial statements.

5. Effects of IFRS adoption in practice

5.1. Relief of the burden to prepare dual financial statements

Among the immediate effects of IFRS adoption is the fact that companies whose securities are listed in foreign public securities markets[13] are relieved of the burden to prepare dual financial statements. IFRS adoption made it unnecessary for domestic companies to convert their financial statements based on Korean GAAP into ones based on different GAAPs required by foreign securities markets when they submit their financial statements to the markets for both new and ongoing filing purposes.

This is so because financial statements based on IFRS are accepted by nearly all foreign securities markets as IFRS is used by more than 100 jurisdictions, including EU countries[14]. It is also notable that although the US has not adopted IFRS yet, the US Securities and Exchange Commission (SEC) has removed its requirement so that foreign companies are exempt from reconciling differences between IFRS and US GAAP when these companies file their financial statements based on IFRS. This exemption would benefit Korean companies, either listed or aspiring to be listed in the US securities markets, by reducing considerable costs of preparing financial statements[15].

Another benefit is that domestic companies can now provide, in a more timely manner and

[13] There are 9 Korean companies whose securities are listed in the US market (KEPCO, KT, etc.) and 11 Korean companies in the UK market (Hyundai Motor Company, Samsung Electronics, POSCO, etc.).

[14] The EU requires mandatory application of IFRS to the financial statements of non-EU companies, starting from 2008 in principle.

[15] Although the costs of converting Korean GAAP-based financial statements to US-GAAP-based financial statements may have varied among different companies, it cost KB Financial Group approximately 2.3 billion KRW, Shinhan Financial Group approximately 3 billion KRW, Woori Financial Group approximately 2.5 billion KRW, and KEPCO approximately 80 million KRW. However, these companies are now presumed to have saved the conversion costs in full as a result of the IFRS adoption in Korea.

without additional cost, their financial data based on IFRS to foreign shareholders or potential investors who are familiar with IFRS. This helps companies establish more systematic and dynamic investor relations, and also enables users of the financial statements to undertake more timely analysis on the financial performance of the companies because the financial statements of domestic companies can be easily compared with those of foreign companies in the same sectors.

Such increased benefits and reduced costs following IFRS adoption would outweigh the burden that may be put on companies adapting to new accounting settings at the initial stage of IFRS implementation.

5.2. Improved accounting transparency

Korea had recognised the low level of accounting transparency as one of the fundamental causes for the financial crisis of the late 1990s. Much effort, thus, was made assiduously since then; for example, the KASB, a private-sector accounting standard-setting organisation, was established to set Korean financial reporting standards in reference to IFRS.

Still, despite much effort to enhance the transparency of the domestic accounting infrastructures during the years preceding the IFRS adoption, foreign constituents did not seem to change their perception of Korean companies staying at a low level of accounting transparency. Such was the general recognition of foreign constituents that undervaluation of domestic companies, so-called 'Korea discount', persisted and therefore domestic companies suffered from it.

Adoption of IFRS does not instantly bring the improvement of accounting transparency, but it undoubtedly provides a crucial opportunity to elevate accounting transparency. Acknowledging the gravity of IFRS adoption, Korea did not merely stop at changing financial reporting standards, but went further to enhance the importance of accounting transparency across all relevant sectors and constituents including companies, auditors, regulators, etc. via education and overhaul of accounting infrastructures.

It might be difficult to quantitatively measure how much accounting transparency has improved, much more so at this point when only one year has passed since the IFRS adoption. And yet a couple of changes are believed to indicate that accounting transparency in Korea has improved: relevant laws and regulations have been aligned with IFRS; constituents approach accounting issues from the global perspective with a mindset seeking 'principle-based' accounting treatments, and so on.

It might take more time for foreign constituents to realise the fact that accounting transparency in Korea has improved than for domestic constituents do. Accordingly, it would be unrealistic to hope that 'Korea discount' would be completely eliminated when only one year has passed since the IFRS adoption. However, it can be said that the IFRS adoption served as a stepping stone for ending 'Korea discount' because it is an event that has a positive signaling effect on foreign constituents with respect to accounting transparency. There is also another positive signal. According to an analysis made by the FSS, Korean companies began their first year of IFRS implementation smoothly and successfully in 2011. Given these facts, it is expected that 'Korea discount' shall gradually fade away when domestic companies continue to follow the principles in IFRS in a consistent manner and thereby foreign constituents will be able to perceive the accounting transparency of Korea as much improved.

5.3. Enhanced international status and role of Korea

After the IFRS adoption, evaluation on accounting infrastructures of Korea from outside is growing positive compared to that during the periods before the IFRS adoption. This is attributable to the fact that Korea is now recognised as a country which successfully implemented IFRS in full ahead of many other countries except for some jurisdictions such as the EU and Canada.

Korea's early decision to adopt IFRS prompted many non-English speaking countries to consider adopting IFRS, and consequently, Korea stands as a representative of many emerging countries which are preparing for IFRS adoption.

Moreover, Korea is committed to the international activities commensurate with its leading position recognised by the global community under the IFRS regime. For instance, it has been endeavouring to establish and develop the Asian-Oceanian Standards Setters Group (AOSSG), which ultimately targets to unify many similar meetings within the region in order to efficiently deliver diverse views of Asia-Oceania to the IASB, and actively participating in the working groups of the AOSSG. In addition, Korea has been taking part in many other international conferences including the EEG and IFASS to raise local issues and shares views. It is expected that Korea's active participation in international activities will further enhance its status and role in the global community.

5.4. Invigorated discussions

Companies and auditors are changing from their 'rule-based' minds to 'principle-based' ones, adapting themselves to new environment of IFRS which is oriented to the 'principle-based' platform. In other words, the change implies that they are keen on generating financial statements that can best represent the financial position and performance of companies through active debates and discussions, departing from compliance with specific rules in the standards.

After the IFRS adoption, companies started discussing material technical issues with their advisors or auditors sufficiently ahead of the annual audit, and auditors started focusing on ensuring application of consistent audit policies on technical issues raised from audit teams in practice by setting up IFRS-specific in-house units.

Also, large accounting firms in Korea recently started to have monthly meetings on various IFRS-related topics. This reflects the fact that culture of sharing knowledge and experience relating to IFRS among accounting firms is steadily spreading and overall communication among accounting constituents has also become vibrant.

Such vibrant interactions not only lay a foundation for transparent financial reporting, but also help uncover diversity in practice or detect areas for improvements in IFRS, in which case issues may be raised to the IFRS IC for further discussion. By actively requesting amendments to and interpretations of IFRS through such a process, Korea would be able to better participate in the IFRS setting process rather than being a passive standards taker. Thus the domestic financial reporting community is expected to continue to progress such a culture of vibrant discussion.

5.5. Indirect effects

5.5.1. Rise in the number of non-listed companies voluntarily electing to apply IFRS

The first IFRS-based annual reports of the companies required to apply IFRS from 2011 are now filed, and according to the FSS, there is a remarkable increase in the number of non-listed companies applying IFRS although they were not required to do so.

According to an analysis performed by the FSS, the number of non-listed companies which voluntarily apply IFRS is expected to rise from 1,142 in 2011 to 1,403 in 2012, an increase of 261 companies (22.9%).

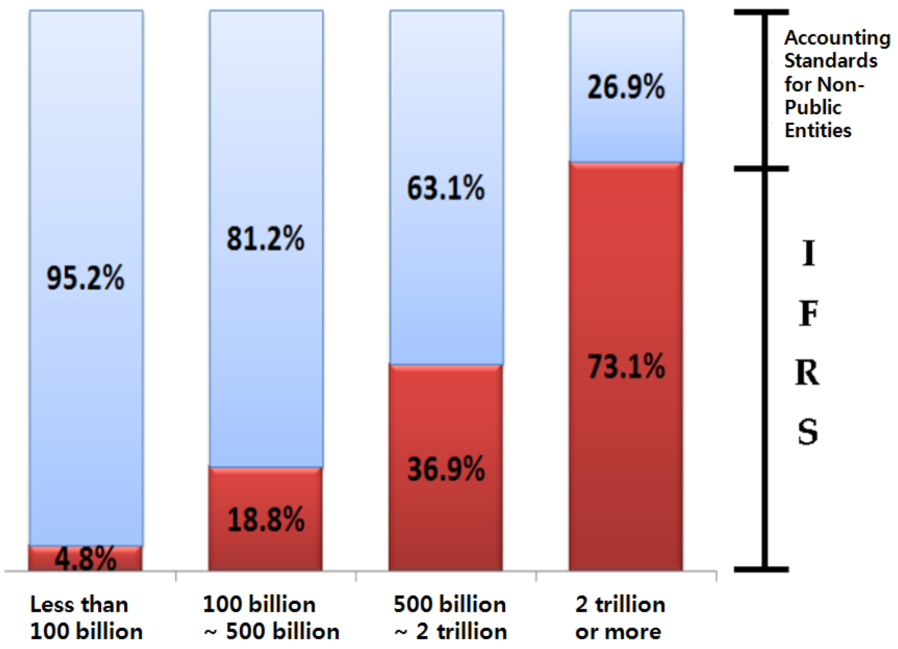
The reasons behind the non-listed companies' voluntary application of IFRS include alignment of accounting policies with parent companies, plans of public offering, and expectations of enhanced reliability from foreign constituents, etc. This trend can also be interpreted as a sign that IFRS is being successfully received in Korea.

[Accounting standards applied by December-closing entities subject to external audit]

(Unit: entity, %)

Types		2011 (A)		2012 (B)		Increase/Decrease(B-A)
		No. of entities	%	No. of entities	%	
Applying IFRS	Mandatory	1,709	9.1	1,694	8.7	-15
	Voluntary	1,142	6.0	1,403	7.2	+261
	Sub-total	2,851	15.1	3,097	15.9	+246
Applying Accounting Standards for Non-Public Entities		16,027	84.9	16,366	84.1	+339
Total		18,878	100.0	19,463	100.0	+585

[The proportion of non-listed entities voluntarily applying IFRS as of 2011]



5.5.2. IFRS application expanded to the public sector

Public organisations also felt the need to actively respond to the globalisation of capital markets as they carried out overseas projects and became involved with financing abroad. Furthermore, considering the importance of public organisations, it was necessary for them to adopt IFRS and contribute to the improvement of accounting reliability of Korea. Accordingly, although the IFRS adoption was originally targeted to the private sector only, the Ministry of Strategy and Finance announced the 'Roadmap toward IFRS adoption of public sector' in June 2009 and public organisations began to apply IFRS in a phased-in manner from 2011[16].

[Average assets and income of public organisations]

(Unit: trillion KRW)

Type	State-owned companies	Quasi-governmental entities	Private-sector listed companies
Avg. assets	11.1	8.5	1.9
Avg. income	3.4	0.6	1.3

IFRS adoption by the public sector brought some positive changes, laying a firm foundation to the advancement of the public sector. For instance, the transition to consolidated financial statements led the public organisations to engage in overall restructuring of the strategy for governance including sales of investments in delinquent subsidiaries as well as establishing a more stringent system of monitoring investees. Public organisations also set up their own

[16] 'Accounting rules for state-owned companies and quasi-governmental entities' were amended to allow application of K-IFRS based on the Act on External Audit of Stock Companies.

decision-making procedures to determine the accounting treatments that best reflect the economic substance of transactions to comply with IFRS. These changes in the public sector along with ones in the private sector are expected to contribute to the enhancement of accounting reliability in Korea.

5.5.3. Efforts to enhance the transparency of governmental accounting

As the overall accounting transparency has improved following the IFRS adoption, efforts to converge governmental accounting standards with IFRS are being made with respect to some topics such as pension liability. To this end, the Ministry of Strategy and Finance founded National Accounting Standards Center with financial support from the government. The purpose of the Center is to faithfully support the governments' policies for accounting and eventually increase the transparency of governmental accounting to live up to the heightened awareness of the importance of accounting transparency resulting from the IFRS adoption.

5.5.4. Establishment of Accounting Advancement Forum and application of accounting transparency indicators by Korea Accounting Association (KAA)

Heightened awareness of the importance of accounting transparency also promoted various schemes to be implemented in order to improve accounting transparency.

The Accounting Advancement Forum was formed by the KASB, FSC, FSS, KICPA, Korea Listed Companies Association, KAA, and accounting firms in March 2010. The forum has held monthly meetings in which constituents have discussions about issues on accounting advancement, for example, 'Measures to foster accounting professionals under the IFRS regime,' 'Proposals to advance accounting regulations', etc. The purpose of the Forum is to lay out long-term or comprehensive strategies for accounting advancement, without focusing on short-term or partial ones, reflecting globalisation of the accounting industry and the role of accounting in capital markets. The Forum also attempts to improve accounting transparency that will be a cornerstone of accounting advancement; it aims to make substantial improvements in accounting transparency in diverse domains including the accounting regulations, accounting industry, accounting education, etc.

It is also worth noting the recent efforts of the KAA: It evaluates all listed companies on their accounting transparency using quantitative transparency measures, thereby awarding companies with higher marks from the evaluation; and holds 'Accounting transparency symposiums.'

5.5.5. Rise in the number of CPAs hired by companies

As mentioned above, Korean GAAP before the IFRS adoption was rather 'rule-based', providing specific and detailed requirements. It meant that most companies, small sized companies in particular, were not too eager to hire accounting professionals such as CPAs prior to the adoption as they believed preparing the financial statements was tantamount to complying strictly with the requirements, without having to exercise a great deal of professional judgement. This climate has been turned around by the IFRS adoption. Companies are now showing a great interest in hiring accounting professionals since IFRS provides only basic principles, requiring companies to use more professional judgement on many cases.

6. Lessons learned and advice to prospective IFRS adopters

6.1. Lessons learned

6.1.1. Need for education and promotion

Quite certainly, the IFRS adoption brought the greatest changes to the Korean accounting system ever since the accounting system was put in place in Korea. Changes following the IFRS adoption were not limited to the ones in the financial reporting standards, but encompassed every single area related to the accounting system. Outwardly, there were extrinsic changes such as realignment of laws and regulations or rebuilding of disclosure and regulatory policies, but change in the perception of constituents at a fundamental level was most remarkable and significant.

The IFRS adoption necessitated two notable changes: one is the transition to a 'principle-based' platform and the other is the transition to disclosure and regulatory policies on a consolidation basis. In response to these extrinsic changes, constituents had to change their notion in order to follow the 'principle-based' IFRS instead of Korean GAAP which was built on a ‘rule-based’ structure under which specific and detailed requirements were set out. They were also required to change their minds to adjust themselves to a new disclosure and regulatory paradigm, where consolidated financial statements are regarded as the primary financial statements instead of K-individual financial statements, in contrast to past Korean GAAP which regarded K-individual financial statements as the primary ones.

Korea believed long-term education and promotion would play an extremely important role in bringing about these changes, acknowledging that such changes in perception cannot be made complete within a short period of time. Accordingly, Korea has carried out education and promotion activities via diverse methods under a long-term plan since the announcement of the Roadmap toward IFRS adoption in 2007.

The KASB, FSS, and other relevant associations, have continually provided public education to various groups of constituents, and held numerous seminars and forums on specific topics. Notably, they have provided bespoke education to listed SMEs, especially the ones located in small cities or marginalised areas in order not to leave any constituents out of pursuing new changes arising from the IFRS adoption. Besides, the KASB set up on-line education programmes to assist the companies who feel that it was too burdensome to implement their own training programmes.

The FSS distributed materials featuring up-to-date activities of the IASB and published guide books summarising key items essential for IFRS implementation, as well as providing information on IFRS education programmes arranged by relevant organisations. The KASB also diversified methods of education and promotion by, for instance, operating 'standing Help Desk'.

Undoubtedly, the successful implementation of IFRS in Korea is considerably attributable to the fact that Korea emphasised education and promotion of IFRS adoption. This attribution is justified, not only in the sense that education and promotion helped constituents better understand IFRS, but in the wider sense that it helped support and persuade companies which showed hesitance or opposition to IFRS adoption into embracing the change. A case of SMEs illustrates the point: some constituents proposed to defer IFRS adoption for SMEs; in response, policy makers resolved this setback by stepping up promotional activities, such as holding forums for the constituents and providing bespoke education to SMEs; consequently, these companies were able to prepare themselves for the IFRS adoption, which led to the inclusion of all listed companies in applying IFRS from 2011 as was originally planned under the Roadmap.

6.1.2. Importance of communication among local and foreign constituents

The 'principle-based' feature of IFRS highlighted the importance of good communication among constituents. The communication was especially important during the early periods of IFRS implementation. Because of the lengthy amount of time and considerable efforts needed to reach conclusions during the early periods, it was necessary for constituents to reconcile their views through diverse channels and frequent communication.

To facilitate such communication, the KASB launched the 'IFRS Implementation Committee', where various issues raised in practice were addressed, and thereby participants in the committee could arrive at a consensus through the cooperative process of seeking solutions. Constituents have also been making efforts to apply IFRS consistently by engaging in various dialogues. For example, auditors from large accounting firms held regular meetings to share and deal with their issues. These efforts are also believed to have contributed to the soft landing of IFRS implementation so far.

Also, the FSS has endeavoured to hear issues arising from practice and resolved problems by holding numerous seminars and forums, where constituents including analysts, credit rating agencies, banks, general users, preparers, and audit firms were invited.

Communication with foreign constituents has become important as well, since consistent application of IFRS implies that such consistency should be maintained not only nationwide, but also across all IFRS-adopted jurisdictions. Therefore it is necessary to have sufficient discussion on practical issues with foreign constituents.

Korea put much importance on communication with the IASB in the early phase of IFRS implementation. Mr. Wayne Upton, IASB director, was invited on many occasions and discussed with local constituents on various issues, helping them widen their perspectives in terms of how to apply the principles in IFRS. Korea then gradually expanded the opportunities for communication with the international community. Most prominent is the fact that the AOSSG was founded and therefore countries in this region can now have regular meetings among them. Furthermore, several working groups within the AOSSG are addressing current accounting issues thoroughly, which helps countries in this region apply IFRSs with global consistency.

During the early phase of IFRS implementation, Korea took a rather reactive position in that it focused on understanding and applying the existing IFRS better. But now that Korea is asked to get involved more proactively with and play a more important role in the IFRS-setting process, having vigorous interaction with constituents, local and global, has become even more crucial for Korea as it will lay the foundation upon which Korea can build in the future.

6.1.3. Support for new IFRS adopters

Korea received much support from the IFRS Foundation for implementing IFRS. In particular, the IASB chair, board members, and directors are credited with the smooth progress of the implementation, for they assisted Korea directly by engaging with Korean constituents on several visits to Korea.

And yet what Korea realised through this experience was that it is necessary for the IFRS Foundation to stretch its support for the countries that newly adopted IFRS. In effect, the Director of International Activities at the IASB is solely serving as the communication channel for new IFRS-adopted countries, and thus it is becoming difficult for one to handle all situations by oneself as the number of these countries is growing.

Furthermore, the IFRS Foundation and IASB may have been more active in resolving the issues raised by European nations or accounting firms who are major financial contributors to the IFRS Foundation, rather than the issues raised by new adopters of IFRS. The IFRS Foundation should uphold its neutral stance as an international organisation and prevent the game from being dominated by only a few powerful players.

’A single set of high quality global accounting standards' should be able to embrace diverse nations around the globe. However, the IASB and IFRS IC seem to adhere to the best practices they have identified in the major IFRS adopters so far and not give much consideration to incorporate diverse practices in (accounting-wise) marginalised countries into IFRS, despite how much these countries need assistance from the Foundation more than any other groups. This led to hesitance and uneasiness shown by many countries which have been considering or ready to adopt IFRS. Thus it is time to make a pivotal change in the way of thinking into embracing diverse practices in countries that are in the infant stage of IFRS adoption or set to adopt IFRS, including ones in Asia or Latin America. It should be noted that too much flexibility is undesirable in that it could potentially shake IFRS to its root, but at the same time, too much rigidity could also break down the whole structure of IFRS.

Thus the KASB would like to make a proposal to the IFRS Foundation that the Foundation establish a structured system – an incubating system – to efficiently assist new IFRS adopter countries.

First, when a country has recently adopted IFRS, it is necessary to set up a task force dedicated to the adoption process of the country. The task force should provide assistance to that country for at least one year after the IFRS adoption so that the country can bed down IFRS as early as possible.

Also, it is important to endow with special status the countries which have recently carried out, or are planning on, IFRS implementation. By doing so, the IFRS Foundation is able to provide a variety of relevant information and well-established education programmes such as special seminars sponsored by the Foundation or hands-on guidance to these countries. In addition, operating the 'Standing Help Desk for new IFRS adopters' is vital in facilitating efficient communication between the Foundation and these countries. Such special status will give these countries priority in receiving service from the Education and Content Services Committee of the IFRS Foundation Trustees and over other groups in terms of the order in which the IASB or IFRS IC processes their jobs.

Moreover, the IFRS Foundation should develop a set of best practices into a protocol as part of an effort to alleviate the burden on the new adopters of IFRS, so that new adopters may follow the protocol to reduce the difficulties that may arise during the earlier phases of IFRS adoption.

Lastly, it will be useful to hold regular meetings between the IASB or IFRS IC and an IFRS adopter in order to resolve country-specific difficulties arising from the IFRS adoption. To make meetings of this kind successful, staff at the IFRS Foundation need to strive to come up with solutions for current issues in a timely manner.

6.1.4. Strengthening the role of the IFRS IC

There was a view that IFRS adoption would not cause much trouble in Korea when Korea first decided to adopt IFRS, on the grounds that Korean GAAP had been formulated with much reference to IFRS. Nevertheless, many practical issues arose during the IFRS implementation periods due to the fact that Korean GAAP provided specific and concrete rules for transactions while IFRS presents the basic principles that focus on the concept of 'substance over form'.

Korea, while dealing with these practical issues, realised that it is necessary to strengthen the role of the IFRS IC. The role of the IFRS IC is particularly essential for new adopters of IFRS since it is inevitable for such countries, having no practical experiences of IFRS application, to go through countless challenges with regard to interpreting IFRS.

Korea found that it is very difficult to receive timely help from the IFRS IC. This is due to the fact that the IFRS IC is not expanding its scale and role in proportion to the increase in the number of practical issues raised by IFRS adopted countries.

Hence it is imperative that the IFRS Foundation come up with measures to strengthen the role of the IFRS IC, such as making the IFRS IC operate on a full-time basis and augmenting the number of staff assigned to it. But if such measures are difficult to implement in the short term period, it would be also possible to consider delegating some of its roles to national standard-setters.

6.2. Advice to countries planning for IFRS adoption

6.2.1. IFRS adoption is a must

First and foremost, Korea, having had a one year experience of IFRS adoption, would like to give a piece of advice to those considering IFRS adoption that adopting IFRS is a must.

The basis of this advice does not just rest on the fact that around 100 countries have already adopted or are planning to adopt IFRS and therefore other nations should also get on the bandwagon. A more important reason is based on the assurance that IFRS adoption will lead to the improvement of transparency in financial reporting of the countries that adopt IFRS, an obvious result of using 'a single set of global financial reporting standards'. This is so because accounting treatments under a single set of global financial reporting standards requires international consistency, which cannot be achieved without a high level of transparency in financial reporting. For instance, if a country develops its own local financial reporting standards, such standards would be prone to changes caused by pressures from certain groups of constituents within the country, whereas using 'a single set of global standards' would eliminate such risk, ensuring the transparency in the process of setting financial reporting standards.

Another reason why Korea proposed that other nations adopt IFRS is based on the belief that IFRS adoption contributes to the improvement of the economy in IFRS adopted countries through efficient resource allocation. Unifying financial reporting standards across the world into a single set of global standards will also accelerate the trend of integration of the global economy, eventually adding more wealth to the global economy as well as the IFRS adopted country itself since the global economy is becoming more interconnected and interdependent.

6.2.2. Sufficient preparation period

Although IFRS adoption is the way forward for other countries as well, those planning the adoption are recommended not to rush into applying IFRS without a sufficient period of preparation. Korea has had a four-year preparation period before the IFRS adoption to achieve successful implementation. Nonetheless, there still remain various issues related to the IFRS adoption in Korea. Seen from Korea's experience, it can be said that IFRS adoption entails many challenges and requires continual efforts. Hence, countries planning the IFRS adoption need to be reminded that a sufficient preparation period, along with thorough plans, should precede IFRS implementation.

6.2.3. Key factors to consider in relation to IFRS adoption

Three factors, which are described as follows, should be kept in mind when countries prepare for their IFRS adoptions.

First, education and promotion are essential. As mentioned in the earlier section of this report, the IFRS adoption in Korea was the event that gave rise to revolutionary changes across the entire Korean accounting system. Korea, having recognised that such changes would include a change in perception of accounting constituents, considered education and promotion as very important aspects when it laid out the plan for IFRS adoption. Also, these activities were prioritised during the course of IFRS implementation. As it is presumed that countries planning the adoption may face similar situations as Korea, it would be useful for them to map out concrete milestones for education and promotion as part of the whole IFRS implementation plan. It is hoped that Korea's experience may be referred to in the process.

Second, relevant infrastructures need to be aligned with IFRS smoothly. As mentioned above, changeover to IFRS in Korea entailed amendments to many relevant laws and regulations including Act on External Audit of Stock Companies, Financial Investment Services and Capital

Markets Act, Corporation Tax Law, and other regulatory requirements. Considering the fact that many laws and regulations would require amendments to comply with IFRS and it generally takes a considerable amount of time to change laws and regulations, the review of the laws and regulations would have to take place right from the initial phase of the IFRS implementation. In the case of Korea, it was possible to start such a review from the very beginning of the IFRS implementation period, immediately after the IFRS Adoption Task Force was formed, because the Task Force consisted of all relevant constituents including representatives from the government, regulatory bodies, standard-setter, preparers, audit firms, and academics. Hence countries planning the adoption should consider all these factors in the preparation process so that they can mitigate the difficulties that their local constituents might encounter due to an imperfect realignment of laws and regulation with IFRS.

Third, consistent application of IFRS should be pursued. IFRS adoption does not speak for itself. What is at stake is how consistently IFRS can be applied after the IFRS adoption. Among other things, active communication among local and foreign constituents is necessary to achieve consistent application. Differing views will arise among constituents on matters that require considerable professional judgement because IFRS provides only the basic principles. Constituents thus need to share their views to find the most reasonable accounting treatments. Accordingly, the authorities need to set the stage for various interactions and discussions among constituents.

6.2.4. Resolution of authorities

Last but not least, it should be emphasised that most vital is the resolution of the authorities in charge of IFRS adoption when implementing IFRS.

The authorities will face many complaints during the period of implementation, for example, a demand for the postponement of IFRS adoption, since it is almost impossible to expect all constituents to be supportive of the IFRS adoption. People may cast doubts on the benefits that may be obtained from using IFRS, which are not so palpable particularly during the early periods of IFRS implementation because positive effects of IFRS application tend to come about over long-term periods, while negative effects arise within short-term periods.

Therefore, the authorities should be determined to consistently proceed with the initial plans for the IFRS implementation based on the unswerving belief that using IFRS will eventually come to fruition.

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