Australian Government
Australian Accounting Standards Board

Korea Accounting Standards Board **KASB**

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Project	AASB-KASB Joint Research Project on IFRS implementation		
Topic	Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia		
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This paper has been prepared by staff of the AASB and KASB. The views expressed in this paper reflect the individual views of authors and not those of the AASB or KASB.			

Purpose

1   The purpose of the working paper is to provide preliminary findings from a joint research project conducted by the AASB and KASB on whether terms of likelihood used in IFRS are interpreted by auditors and preparers of financial reports differently between Korea and Australia.

2   Please note, further data is still being collected and further analysis is planned. As the project remains in progress, the results and recommendations in the working paper are inconclusive.

3   The objectives of this research are:

(a)   to investigate whether there are differences in interpreting terms of likelihood by preparers and auditors between Korea and Australia;

(b)   to investigate whether translation of terms of likelihood from English to Korean are consistent with the intended expressions; and

(c)   to identify findings that highlight possible improvements that could be made to the standard-setting process to help achieve the objective of global standards.

Research Method

4   A questionnaire was developed by AASB and KASB staff and sent out to auditors and preparers in Australia and Korea.

5   The survey addressed 14 terms of likelihood used in IFRS which relate to a level of probability of a transaction or event occurring[1]. Respondents were required to give their professional opinions on how the terms of likelihood should be interpreted by indicating the range of probability that each term of likelihood represents in percentage (%) terms on a scale of 0% to 100%.

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[1] http://tillion.co.kr/survey/?pid=S99284256&grpid=TO&resid=0&vcidx=1

6   The survey consists of a section that requires respondents to give their opinions on terms of likelihood "in isolation" and another section requires respondents to give their opinion on terms of likelihood by reference to a specific accounting context from IFRS. The questionnaire also collects data about the background of respondents.

Preliminary findings and recommendations

7   The preliminary findings suggest that:

(a)   there are differences in interpretation of terms of likelihood between Australian and Korean accounting professionals. Respondents between Australia and Korea assigned different rankings on some terms of likelihood;

(b)   some terms could be interpreted differently in different contexts. For example, respondents tend to be more conservative when interpreting the term "probably" in the context of liabilities in comparison to interpreting the term in the context of assets;

(c)   some terms of likelihood are not interpreted differently from each other, for example respondents seem to interpret "unlikely" and "highly unlikely" in the same manner;

(d)   some terms of likelihood are interpreted differently in different languages by Korean accounting professionals indicating that there may be a translation issue that should be addressed; and

(e)   some terms of likelihood cannot be translated into Korean. For example, "probable" and "likely" are translated into a single Korean expression "가능성이 높다", and the terms "virtually certain" and "reasonably certain" are both translated into a single Korean term "가능성이 거의 확실한".

8   Key tentative recommendations are:

(a)   standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;

(b)   standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms that only be departed from in exceptional cases. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;

(c)   if a set of 'accepted' terms of likelihood were to be developed, the process should include consulting with specialist linguists who have familiarity with IFRS;

(d)   consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples. If a set of 'accepted' terms of likelihood were developed, consistent with the IASB's policy on the conceptual framework, any departures from that set would need to be justified and explained in the relevant basis for conclusions;

(e)   the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and

(f)   standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

Project status and next steps

9   Further data is still being collected and further analysis is planned.

10   The final research report is expected to be issued in 2016.