



LETTER OF COMMENT NO. 104

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14 April 2009

International Accounting Standards Board  
30 Cannon Street, London EC4M 6XH  
United Kingdom

Dear Sir or Madam:  
Discussion Paper Preliminary Views on Financial Statement Presentation

The Korea Accounting Standards Board (KASB) has finalized its comments on Discussion Paper Preliminary Views on Financial Statement Presentation. I would appreciate your including our proposals in your summary of analysis.

The enclosed proposals represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our proposals. You may direct your inquiries either to me (cwsuh@kasb.or.kr) or Mr. Sung-ho Joo (sung-ho.joo@kasb.or.kr), researcher of KASB.

Yours sincerely,

Dr. Chungwoo Suh  
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Discussion Paper Preliminary Views on Financial Statement Presentation. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in KASB.

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#### General comments

We generally do not agree to the cohesiveness and disaggregation principles. We think that the potential for reduced comparability of financial statements resulting from a management approach to classification outweighs the benefits of that approach.

We prefer an indirect method with presentation of important non-cash information in the note. In order to require a direct method only, the IASB should provide what important information of direct method which indirect method can't present is.

Changes in a financial statements format have a big effect on a traditional accounting system. Korea adopts IFRSs from 2011 and early adoption is allowed from 2009. Entities in Korea adopting IFRSs have already set up or are setting up a new accounting system for a current financial statement format. If a final standard is made in 2011 according to the project schedule, entities in Korea have to reestablish a new accounting system to reflect the new format. It would cost a lot and need time to adapt to the new financial statement format. Thus, we suggest that for IFRSs adopting countries, especially Non-English speaking countries, effective date should be delayed after 2015.

In addition, some words are mixed in the DP such words as shall/should, profit or loss/net income and accumulated other comprehensive income/reserves. Although two words are same in meaning they are confused. We suggest that one word be used in the DP.

We generally do not agree to the cohesiveness and disaggregation principles. So we comment on the DP provided the cohesiveness and disaggregation principles are appropriate from question 2. Our detailed comments are set out below.

Question 1: Would the **objectives of financial statement presentation** proposed in paragraphs 2.5 - 2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

We do not agree to the cohesiveness and disaggregation principles. We think that the potential for reduced comparability of financial statements resulting from a management approach to classification outweighs the benefits of that approach.

There was a dissenting opinion. The cohesiveness and disaggregation principles are appropriate if it ensures comparability of financial statements.

Question 2: Would the **separation of business activities from financing activities** provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

The DP requires an entity to present information about the way it creates value separately from information about the way it funds or finances those creating value activities. We believe that such a separated presentation helps users make better decisions.

Question 3: Should **equity** be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52 - 2.55)? Why or why not?

We agree to the DP's proposal in which equity should be presented as a section separately from the financing section. Because it is appropriate to present owner source of financing separately from non-owner source of financing.

Question 4: In the proposed presentation model, an entity would present its **discontinued operations** in a separate section (see paragraphs 2.20, 2.37 and 2.71 - 2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

The characteristics of cash flows from continuing operations and discontinued operations are different in user's decisions. We believe that separate presentation of discontinued operations helps users make better decisions.

Question 5: The proposed presentation model relies on a **management approach** to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39 - 2.41).

(a) Would a management approach provide the most useful view of an entity to users of its financial statements?

A management classifies assets or liabilities in a manner that the best reflects the way the asset or liability is used within the entity. We believe that a management approach provides useful view of an entity to users.

In addition, we suggest that when applying fair value hedge accounting for unrecognised from commitment, the effective portion of hedging instruments should be presented as a deduction of the carrying amount of related firm commitments or vice versa in the same section or category. The DP does not provide specific examples about financing asset and investing liability. So those examples may be necessary to clearly understand financing asset and investing liability.

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

A management approach may reduce comparability of financial statements. On the other hand, a classification according to a management approach reduces the cost to gather information and satisfies different types of users. In order to improve comparability of financial statements, minimum guidance is necessary for classification of such items as an investment in associate, share of profit of associate and gold.

Question 6: Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the **statement of financial position**. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity' s business activities or its financing activities? Why or why not?

When users analyse financial ratios, information in current financial statements should be reorganized for the analysis. The DP proposes that assets and liabilities be classified into the sections and categories. So we believe that separate information makes financial ratio easy and specific.

Question 7: Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have **more than one reportable segment** for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

If an entity has more than one reporting segment whose nature is different and reports separately, the entity should classify assets and liabilities into the appropriate sections

and categories at the reportable segment level. This classification is appropriate for a management approach.

Question 8: The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making **consequential amendments to existing segment disclosure requirements** as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

IFRS 8 requires to report total assets for each reportable segment. In addition, total liabilities should be reported if such an amount is regularly provided to the chief operating decision maker. We suggest that total liabilities for each reportable segment should be reported even if it is not provided to the chief operating decision maker. Because all assets and liabilities for each reportable should be reported for the cohesiveness and disaggregation principles.

Question 9: Are the **business section** and the **operating and investing categories** within that section defined appropriately (see paragraphs 2.31 - 2.33 and 2.63 - 2.67)? Why or why not?

Disaggregation enables users to distinct core business and other business. In addition, users can see business income which consists of operating income and investing income at a glance. Therefore, it is useful information for users' decision.

Question 10: Are the **financing section** and the **financing assets and financing liabilities categories** within that section defined appropriately(see paragraphs 2.34 and 2.56 - 2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

Business section consists of operating category and investing category and subtotal is presented at each section and category. Therefore, we believe that difference in amount between category within financing section and category within business section is can be ignored.

The financing section includes items which are used to fund or finance its business activities. Non-financial assets or liabilities may be used for financing but financial

assets or liabilities are generally related to financing. Therefore, we agree that the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed.

Question 11: Paragraph 3.2 proposes that an entity should present a **classified statement of financial position** (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.

(a) What types of entities would you expect **not** to present a classified statement of financial position? Why?

Operating cycles of financial institutions are not clear and presentation on maturity of asset or liability is more important than current/non-current presentation. Therefore, liquidity order presentation is appropriate for financial institutions.

(b) Should there be more guidance for distinguishing which entities should present a **statement of financial position in order of liquidity**? If so, what additional guidance is needed?

IAS 1 already prescribes that liquidity order presentation is more relevant than current/non-current presentation for financial institutions. Further guidance is not necessary because management can judge what method is relevant for its entity.

Question 12: Paragraph 3.14 proposes that **cash equivalents** should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

We do not agree. An entity generally does not have cash during the reporting period and invest it in short-term instruments. An entity has very small amount of cash at the end of the reporting period. If cash equivalents is presented separately from cash this presentation does not reflect cash management in practice. Therefore definition of cash equivalents should be clearer other than separate presentation.

There was a dissenting opinion. In practice, it was not clear which items should be classified cash equivalents because definition of cash equivalents is not clear and judgement is somewhat necessary. Therefore, separate presentation provides more useful information about liquidity than presenting them together.

Question 13: Paragraph 3.19 proposes that an entity should present its similar **assets and liabilities that are measured on different bases** on separate lines in the statement of financial position. Would this disaggregation provide information that is more

decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

If an entity presents similar assets and liabilities measured on different bases as same line items, it becomes difficult to assess each item within same line items. On the other hand, if an entity presents those items separately, the statement of financial position includes too many information. So we suggest that an entity can present them in the statement of financial statement or in the note.

Question 14: Should an entity present comprehensive income and its components in a **single statement of comprehensive income** as proposed(see paragraphs 3.24 - 3.33)? Why or why not? If not, how should they be presented?

We agree to a single statement presentation of comprehensive income as proposed. Users and preparers are already familiar with comprehensive income and a single statement presentation will improve comparability of financial statements.

Question 15: Paragraph 3.25 proposes that an entity should indicate the category to which items of **other comprehensive income** relate (except some foreign currency translation adjustments) (see paragraphs 3.37 - 3.41). Would that information be decision-useful? Why or why not?

We believe that the category information as proposed enables users to know reclassification adjustments of other comprehensive income and the effect on profit or loss. Therefore the information is useful for the predicting an entity's future profit or loss.

Question 16: Paragraphs 3.42 - 3.48 propose that an entity should further **disaggregate** within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by **their function, by their nature**, or **both** if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

We believe that the disaggregation helps users know the structure of income or expense and expect future cash flows.

Question 17: Paragraph 3.55 proposes that an entity should allocate and present **income taxes** within the statement of comprehensive income in accordance with existing

requirements (see paragraphs 3.56 - 3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

In theory, allocation of income taxes to the each section and category is ideal but the allocation is subjective and difficult in practice. Therefore, we agree to the DP's proposal that income taxes should be allocated to continuing operation, discontinued operation and other comprehensive income.

Question 18: Paragraph 3.63 proposes that an entity should present **foreign currency transaction gains and losses**, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.

(a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

We believe that the proposed presentation provides useful information particularly to an entity which has many foreign transactions. We do not have any alternative methods.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

An entity which has many foreign transactions should manage each foreign currency transaction individually which leads for an entity to take additional costs.

Question 19: Paragraph 3.75 proposes that an entity should use a **direct method of presenting cash flows** in the statement of cash flows.

(a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

It is difficult to say which method is more decision-useful because each method has pros and cons. But we prefer an indirect method with presentation of important non-cash information in the note. In order to require a direct method only, the IASB should provide what important information of direct method which indirect method can't present is.

There was a dissenting opinion. Some suggested a direct method with presentation of reconciliation profit or loss to operating cash flows in the note.

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75 - 3.80) than an indirect method? Why or why not?

A direct method directly shows each operating item as cash amount. Therefore we believe that a direct method is more consistent with the proposed cohesiveness and disaggregation objective.

(c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

N/A

Question 20: What **costs** should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81 - 3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

The cost of accounting system change to direct method will be one off costs. The cost of collecting information for direct method will be ongoing application costs.

Question 21: On the basis of the discussion in paragraphs 3.88 - 3.95, should the **effects of basket transactions** be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

If practicable, the effects of basket transactions should be allocated to the related sections and categories. But its allocation is very complicating and difficult. Therefore we support an alternative B or C.

Question 22: Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the **maturities of its short-term contractual assets and liabilities** in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

A financial institution may be more relevant to use liquidity order presentation. A financial institution generally has short-term contractual assets and liabilities more than

manufacturing company does. So its maturity information of asset or liability is important. Therefore an entity that presents assets and liabilities in order of liquidity only discloses information about the maturities of its short-term contractual assets and liabilities and other entity does not need to disclose the information.

Question 23: Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components:

(a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.

(a) Would the proposed **reconciliation schedule** increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

The reconciliation schedule shows how the line items in the statement of cash flows are reconciled to the line items in the statement of comprehensive income at a glance. It helps users make better decisions.

The reconciliation schedule includes all items in the statement of cash flows and comprehensive income. But in considering users' understanding and practicability in practice, reconciliation of some important items will be decision-useful enough.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

The proposed disaggregation will be decision-useful unless implementation cost is considered

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44 - 4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

We believe that the DP explains reconciliation schedule specifically and further guidance is not necessary.

In addition, reconciliation schedule should clearly include income or expense from foreign currency transactions for the countries which foreign currency risk is high.

Therefore income or expense from foreign currency transactions should be presented in column C.

Question 24: Should the boards address further disaggregation of **changes in fair value** in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

Current IFRS does not provide specific guidance about further disaggregation of changes in fair value, which can be related to recognition and measurement problem. Therefore further disaggregation of changes in fair value should be considered not in the short term but in the long term.

Question 25: Should the boards consider other **alternative reconciliation formats** for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10 - B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

Cash flow statement and the statement of comprehensive income are flow notion, but the statement of financial position is stock notion. Therefore reconciliation between the statement of financial position and cash flow statement and the statement of comprehensive income does not provide useful information. We support the proposed format that reconciles cash flows to comprehensive income rather than using the statement of financial position reconciliation format.

Question 26: The FASB' s preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to **unusual or infrequent events or transactions** that are often presented as special items in earnings reports (see paragraphs 4.48 - 4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.

(a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

It is decision-useful information to present ordinary income and extraordinary income separately. However it is subjective to judge whether an item is unusual and infrequent. IAS 1 also prescribes that no items are presented on the face of the statements as extraordinary items. Presentation according to subjective judgement reduces

comparability of financial statements and it is not decision-useful information. Therefore we do not agree to present unusual and infrequent items in the financial statement.

(b) APB Opinion No. 30 Reporting the Results of Operations—reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

It is subjective to judge whether an item is unusual and infrequent. We do not agree to present unusual and infrequently items in the financial statement.

(c) Should an entity have the option of presenting the information in narrative format only?

If the information is fairly presented, a format to present it does not matter. Therefore it does not need to require narrative format only.