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April 2011

Supplementary Document 'Financial Instruments: Impairment'
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Sir or Madam:

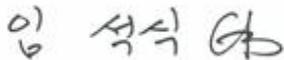
The Korea Accounting Standards Board (KASB) has finalized its comments on Supplementary Document 'Financial Instruments: Impairment'.

I would appreciate your including our comments in your summary of analysis.

The enclosed comments 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 comments. You may direct your inquiries either to me(suklim@kasb.or.kr) or to Mr. Gun Jae Lee (gjlee@kasb.or.kr), Senior Researcher of KASB.

Yours sincerely,



Dr. Suk-Sig Lim
Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

We are pleased to comment on the Supplementary Document ‘Financial Instruments: Impairment’. 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.

Supplementary Document ‘Financial Instruments: Impairment’

Question 1

Do you believe the approach for recognition of impairment described in this supplementary document deals with this weakness (ie delayed recognition of expected credit losses)? If not, how do you believe the proposed model should be revised and why?

It is reasonable to believe that the proposed impairment approach generally would result in earlier recognition of credit losses than the incurred loss impairment model in IAS 39.

However, we are concerned that there may be asymmetrical accounting treatments for the financial instruments depending on the loss occurrence patterns if the proposed impairment model is applied.

Question 2

Is the impairment model proposed in the supplementary document at least as operational for closed portfolios and other instruments as it is for open portfolios? Why or why not?

Although the supplementary document seeks views on whether the proposed approach is suitable for open portfolios, the boards welcome any comments on its suitability for single assets and closed portfolios and also comments on how important it is to have a single impairment approach for all relevant financial assets.

It is desirable to have a single impairment approach for all relevant financial assets, and we believe that the proposed approach is suitable for single assets and closed portfolios.

Question 3

Do you agree that for financial assets in the ‘good book’ it is appropriate to recognise the impairment allowance using the approach described above? Why or why not?

We agree.

Question 4

Would the proposed approach to determining the impairment allowance on a time-proportional basis be operational? Why or why not?

We believe that the proposed approach is the most operational approach among the ones discussed during the redeliberation period after the initial ED publication.

Question 5

Would the proposed approach provide information that is useful for decision-making? If not, how would you modify the proposal?

We are concerned that the requirement to establish a minimum allowance balance, or ‘floor’ may lead to inconsistent accounting information due to asymmetrical accounting treatments for the financial instruments depending on the loss occurrence patterns.

Question 6

Is the requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance clearly described? If not, how could it be described more clearly?

We agree.

Question 7

Is the requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance operational and/or auditable? If not, how could it be made more operational and/or auditable?

Since the accounting effect based on the classification between the two groups can be significant, there is grave concern that differentiating the two groups on the basis of an entity’s internal credit risk management may cause a lot of controversy in real practice or during the audit.

So, there needs to be detailed examples or guideline in order to minimize the confusion during the process of applying into the real practice.

Question 8

Do you agree with the proposed requirement to differentiate between the two groups (ie ‘good book’ and ‘bad book’) for the purpose of determining the impairment allowance? If not, what requirement would you propose and why?

We agree in principle.

However, rather than simply differentiating between the two groups, a way to subdivide the methodology of determining the impairment allowance based on the way entities internally manage financial assets into various tiers depending on collectability needs to be taken into consideration.

For example, financial institutions commonly establish detailed classification guidance and internal credit risk management systems based on forward looking criteria (FLC).

Question 9

The boards are seeking comment with respect to the minimum allowance amount (floor) that would be required under this model. Specifically, on the following issues:

(a) Do you agree with the proposal to require a floor for the impairment allowance related to the ‘good book’? Why or why not?

- (b) Alternatively, do you believe that an entity should be required to invoke a floor for the impairment allowance related to the ‘good book’ only in circumstances in which there is evidence of an early loss pattern?*
- (c) If you agree with a proposed minimum allowance amount, do you further agree that it should be determined on the basis of losses expected to occur within the foreseeable future (and no less than twelve months)? Why or why not? If you disagree, how would you prefer the minimum allowance to be determined and why?*
- (d) For the foreseeable future, would the period considered in developing the expected loss estimate change on the basis of changes in economic conditions?*
- (e) Do you believe that the foreseeable future period (for purposes of a credit impairment model) is typically a period greater than twelve months? Why or why not? Please provide data to support your response, including details of particular portfolios for which you believe this will be the case.*
- (f) If you agree that the foreseeable future is typically a period greater than twelve months, in order to facilitate comparability, do you believe that a ‘ceiling’ should be established for determining the amount of credit impairment to be recognised under the ‘floor’ requirement (for example, no more than three years after an entity’s reporting date)? If so, please provide data and/or reasons to support your response.*
- (a) We agree.
- (b) We disagree because it will be accompanied by another problem of not clearly distinguishing an early loss pattern.
- (c) The foreseeable future concept may cause divisive application practices across entities.
- (d) We prefer the foreseeable future period does not change on the basis of changes in economic conditions.
- (e) When considering the purpose of the minimum allowance amount and financial reporting periods, accounting treatment of foreseeable future as less than 12 months is not appropriate.

- (f) We suggest requiring the foreseeable future period to be 12 months uniformly.

Question 10

Do you believe that the floor will typically be equal to or higher than the amount calculated in accordance with paragraph 2(a)(i)? Please provide data and/or reasons to support your response, including details of particular portfolios for which you believe this will be the case.

When credit loss occurrences are concentrated on the early days compared to average return rate for the remaining life, the minimum allowance amount may be equal to or higher than the amount calculated using time-proportional approach.

Question 11

The boards are seeking comment with respect to the flexibility related to using discounted amounts. Specifically, on the following issues:

(a) Do you agree with the flexibility permitted to use either a discounted or undiscounted estimate when applying the approach described in paragraph B8(a)? Why or why not?

(b) Do you agree with permitting flexibility in the selection of a discount rate when using a discounted expected loss amount? Why or why not?

We agree in principle. However, we are concerned that it may impair the enhancing qualitative characteristic of comparability since the effects due to the differences in discount rate can be significant.

The framework regarding the discount rate should be prepared as soon as possible in order to maintain overall consistent logic of the IFRS.

Question 12

Would you prefer the IASB approach for open portfolios of financial assets measured at amortised cost to the common proposal in this document? Why or why not? If you would not prefer this specific IASB approach, do you prefer the general concept of

*the IASB approach (ie to recognise expected credit losses over the life of the assets)?
Why or why not?*

We support IASB views which considered impairment as a part of the measurement of financial assets at amortised cost after their initial recognition.

However, during our due process, there were several comments of not supporting IASB views due to difficulties in applying them into the real practice.

Question 13

Would you prefer the FASB approach for assets in the scope of this document to the common proposal in this document? Why or why not? If you would not prefer this specific FASB approach, do you prefer the general concept of this FASB approach (ie to recognise currently credit losses expected to occur in the foreseeable future)? Why or why not?

We believe that the FASB's approach failed to reflect the economic substance of lending transactions and the amounts recognised based on it would not reflect the pricing of the asset.

However, during our due process, many prefer the FASB views which was to ensure that the allowance balance was sufficient to cover all estimated credit losses for the remaining life of an instrument.

Question 14Z

Do you agree that the determination of the effective interest rate should be separate from the consideration of expected losses, as opposed to the original IASB proposal, which incorporated expected credit losses in the calculation of the effective interest rate? Why or why not?

We agree.

Question 15Z

Should all loan commitments that are not accounted for at fair value through profit or loss (whether within the scope of IAS 39 and IFRS 9 or IAS 37) be subject to the impairment requirements proposed in the supplementary document? Why or why not?

We believe they should be subject to the same requirement.

Question 16Z

Would the proposed requirements be operational if applied to loan commitments and financial guarantee contracts? Why or why not?

(No Comment)

Question 17Z

Do you agree with the proposed presentation requirements? If not, what presentation would you prefer instead and why?

We agree.

Question 18Z

(a) Do you agree with the proposed disclosure requirements? If not, which disclosure requirements do you disagree with and why?

(b) What other disclosures would you prefer (whether in addition to or instead of the proposed disclosures) for the proposed impairment model and why?

We agree with most of them. However, requiring disclosing information about allowances for five year has great burden in real practice. We suggest three years instead.

Question 19Z

Do you agree with the proposal to transfer an amount of the related allowance reflecting the age of the financial asset when transferring financial assets between the two groups? Why or why not? If not, would you instead prefer to transfer all or none of the expected credit loss of the financial asset?

We agree.