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

Re: Conceptual Framework for Financial Reporting: The Reporting Entity

Dear Officer,

The Korea Accounting Standards Board (KASB) appreciates this opportunity to comment on the Exposure Draft 'Conceptual Framework for Financial Reporting: The Reporting Entity', and fully supports the IASB's continuous commitment and efforts to the development of high quality international accounting standards.

We generally support the proposals. However, there are some areas which call for further clarification.

- 1. In the case when a subsidiary qualifies a reporting entity,
 - what level of information should be provided when a member within a consolidation group qualifies a reporting entity: consolidated or individual
 - What method is to be used measurement & recognition for transactions with its parent
- 2. Clear rationales should be provided for the new term 'parent-only', if this term is meant to be interchangeable with separate F/S.
- 3. Further examples should be furnished for the cases when a portion becomes a reporting entity

Comments on specific questions are presented in Appendix. Please do not hesitate to contact

us if you have any inquiries regarding our comments. You may direct your inquiries either to myself (cwsuh@kasb.or.kr) or to Ms. Kim, Won Jung (wonjungkim@kasb.or.kr), senior researcher of the KASB.

Yours sincerely,

Dr. Chungwoo Suh

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Chairman, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Director of Research Department

Hyun-duck Choi, Senior Researcher



Comments on specific questions

<Question 1>

Do you agree that a reporting entity is a circumscribed area of economic activities whose financial information has the potential to be useful to existing and potential equity investors, lenders and other creditors who cannot directly obtain the information they need in making decisions about providing resources to the entity and in assessing whether the management and the governing board of that entity have made efficient and effective use of the resources provided? (See paragraphs RE2 and BC4–BC7.) If not, why?

We generally agree with your proposals concerning the definition of 'reporting entity'. In addition to our general agreement, we would like to suggest some additional thoughts on the following three items.

(1) Matters Related to Preparation of Information about Reporting Entity

In the ED, 'reporting entity' is defined in the light of information users. However, it is not clearly delineated whether the information itself should be prepared at the consolidated level or individual level. When preparing financial information for a portion that qualifies a reporting entity(subsidiary), it would be confusing about which level of such information should be presented in the F/S. In other words, in practice it would be arguable about what information should be provided for transactions with its parent when of a subsidiary qualifies a reporting entity. Such arguments would be found as follows,

Argument 1:

If a subsidiary is considered a separate reporting entity, the financial information of the subsidiary should be prepared on the basis of fair value, which is the method of measurement and recognition under arms-length transactions.

Argument 2:

Even when a subsidiary is considered a separate reporting entity, it is still a member within a consolidation group. The financial information of the subsidiary should reflect the same amount as its parent measures and recognizes on the book.

(2) Non-Reporting Entity

We agree with the view of the FASB and the IASB that too detailed definition may deter the provision of necessary information. In regards to Question 3, RE6 offers an example of qualifying as a reporting entity(purchase of a branch or division of an entity). In this example, a portion of an entity is not a reporting entity until illustrated occasions would occur. Another example can be found in a proprietary entity that fundraises through debt issuance and then would convert itself from non-reporting entity to reporting entity. Reference such 'non-reporting entity' may help understand the concept of reporting entity.

(3) The scope of information users

Information users proposed in the ED are limited to equity investor, lenders and other creditors. However, information users in general can encompass employees and government-related entities etc., and should be further expanded to include such users other than resource providers. We hence propose to add 'other users' in the scope.

<Question 2>

Do you agree that if an entity that controls one or more entities prepares financial reports, it should present consolidated financial statements? Do you agree with the definition of control of an entity? (See paragraphs RE7, RE8 and BC18-BC23.) If not, why?

Generally agree. However, we would like to make a couple of suggestions. IAS 27 currently provides an exemption for intermediate parents to prepare consolidated F/S. This exemption may cause inconsistency between the framework and standards. Further clarification should be furnished in this regard. Additionally, the new term 'parent-only' financial statement introduced in the ED seemingly refers to separate financial statement in IAS 27 but not evidently indicated. Further clarification should be offered

<Question 3>

Do you agree that a portion of an entity could qualify as a reporting entity if the economic activities of that portion can be distinguished from the rest of the entity and financial information about that portion of the entity has the potential to be useful in making decisions about providing resources to that portion of the entity? (See paragraphs RE6 and BC10.) If not, why?

Overly agree. The term 'portion' is relatively new, and it may not be readily applicable in practice. Especially more examples would be provide in the areas where a portion becomes a reporting entity and the case when information can be potentially useful.

<Ouestion 4>

The IASB and the FASB are working together to develop common standards on consolidation that would apply to all types of entities. Do you agree that completion of the reporting entity concept should not be delayed until those standards have been issued? (See paragraph BC27.) If not, why?

We do not agree with the proposal. The framework and standards are two separate spheres that are not mingleable. Standards are regarded to be higher than the Framework in the hierarchy. Hence the question itself may be irrelevant. Also, this ED deals with only basic concepts about 'reporting entity'. We do not think there are not logical collisions between the framework and standards.

[Dissenting Opinion]

Unlike the view of the KASB, Professor Lee-Seok Hwang agrees with the proposal. He views that the definition of consolidated F/S and control proposed in the ED closely related to those in IAS. He hence suggests that the reporting entity concept should not be completed until the development of consolidation standards by the FASB and the IASB is finished.

<Others>

The example proposed in the ED, which illustrates a case when a reporting entity would become a reporting entity(purchase of a branch or division of an entity), appear to represent rather the needs of a single group may be interpreted to contradict OB4 which refers to the needs of a wide range of users. The possible inconsistency should be corrected in advance.