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To whom it may concern.

The Korea Accounting Standards Board (KASB) has finalized its comments on EFRAG Discussion Paper (Disclosure Framework for Notes). I appreciate your including our comments.

The enclosed comments represent official positions of the KASB

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 Ms. So-Young Chung (sychung@kasb.or.kr), Technical Manager of the KASB.

Yours sincerely,



Mr. Suk-Sig (Steve) Lim
Chair, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Research Fellow of Research Department

We are pleased to comment on EFRAG Discussion Paper (Disclosure Framework for Notes).

Question 1.1. Key principles

The Discussion Paper sets out a number of key principles that should underpin a Disclosure Framework. Do you agree with these key principles? If not, what alternative principles would you propose?

We generally agree with the key principles set out in the Discussion Paper.

Question 1.2 . Understanding the problem

This Discussion Paper suggests that there are two main areas for consideration to improve the quality of disclosures:

- a. avoiding disclosure overload, which may be caused both by excessive requirements in the standards, and by ineffective application of materiality in the financial statements;**
- b. enhancing how disclosures are organised and communicated in the financial statements, to make them easier to understand and compare.**

Do you agree that these are the two main areas for improvements?

We agree that the two areas pointed out in the Discussion Paper, disclosure overload and lack of organisation and communication, are the areas that need to be addressed in order to improve the quality of disclosures.

Question 2.1

In chapter 2 a definition of the purpose of the notes is proposed to assist in deciding what financial information should be required in the notes.

Do you think that there is a need to define the purpose of the notes? If not, please provide your reasoning.

Question 2.2

Is the proposed definition of the purpose of the notes helpful in identifying relevant information that should be included in the notes? If not, how would you suggest it should be amended?

We generally agree with having a definition of the purpose of the notes and we think this would be helpful in identifying relevant information to be included in the notes.

Question 3.1

In chapter 3, it is proposed to identify specific users' needs that the notes should fulfil. Those users' needs are drawn from the Conceptual Framework. It is also suggested that a Disclosure Framework should include indicators to assist the standard setters to decide when additional information is required to fulfil those users' needs.

- (a) Is the description of the approach clear enough to be understandable? If not, what points are unclear?**
- (b) If you do not support this approach, what alternative would you support and why?**
- (c) Do you think that a category on "information about the reporting entity as a whole" should be included? If so, why?**

We agree with providing disclosure information to fulfill the users' needs and think that the description of the approach is clear and understandable.

Furthermore, we believe it is necessary to include a category on "information about the reporting entity as a whole" in order to understand the entity in its entirety. A number of existing important disclosure requirements, such as those on the structure or the uncertainties about the going concern assumption of the entity, fall under this category.

Although having such category may go beyond the definition of the purpose of the notes and cause information overload as noted in the Discussion Paper, it would be appropriate to include basic information about the entity since it is important to the users.

Question 3.2

Are the proposed users' needs and indicators in chapter 3 helpful to identify relevant information? If not, how would you suggest amending them, or what other basis would you suggest to identify relevant information to be included in the notes?

We agree with it.

Question 3.3

Do you agree with the way how risk and stewardship are addressed in the Discussion Paper? If not, what are your views about how risk and stewardship information that should be provided in the notes?

We agree with it.

However, there is a need to pay attention that a significant portion of disclosures on risk may be deeply related in nature to regulatory objectives of regulators, e.g., securities regulator or prudential regulator. Thus, information on risk exposures required for disclosure in financial reporting (notes to the financial statement) should be clearly separated from those required for regulatory purposes (business reports) so that disclosures for regulatory purposes are excluded from the disclosures for financial reporting purposes.

To do so, discussions should be carried out at a level that requires participation of all regulators and standard setters of IFRS adoption jurisdictions.

Question 3.4

Standard setters frequently mandate detailed disclosure requirements in each standard. In chapter 3, it is suggested that the way in which disclosures are established influences behaviours, and alternative approaches are discussed.

Do you think that standard setters should change their practice of mandating detailed disclosure requirements in each standard? If so, which of the alternative approaches discussed do you think will be the most effective in improving the quality of information in the notes?

Yes. Rather than providing detailed disclosure requirements in each standard, it would be appropriate to provide a single set of disclosure requirements, as set out in the Discussion Paper, for the following reasons.

Having a single set of disclosure requirements would: secure consistency in the quality of disclosure information on all line items and transactions; allow faster amendment of notes when an amendment is needed, compared to the existing disclosure requirements scattered across the standards; and provide disclosure requirements for certain transactions that are not addressed in each standard.

Question 3.5

Some standard setters have established, or have proposed establishing, differential reporting regimes on the basis that a 'one size fits all' approach to disclosures is not appropriate. They consider that reporting requirements should be more proportionate, based on various characteristics such as entity size, or whether they relate to interim or annual financial statements?

Do you think that establishing alternative disclosure requirements is appropriate?

Yes, we think it is appropriate to apply disclosure requirements proportionate to the characteristics of entities. However, it is important to consider the trade-offs among the characteristics of information demanded by users as well as between costs and benefits.

Question 4.1

Chapter 4 discusses the application of materiality to disclosures. Currently, IFRS state that an entity does not need to disclose information that is not material.

Do you think that a Disclosure Framework should reinforce the application of materiality, for instance with a statement that states that immaterial information could reduce the understandability and relevance of disclosures ?

Yes. By disclosing immaterial information in the notes, users may end up not focusing on material information. That is, it is preferable to disclose only material information considering that immaterial information could reduce the understandability and relevance of disclosures. (Refer to the answer to Q6.1 for additional explanations)

Question 4.2

Chapter 4 also includes proposed guidance to assist in the application of materiality.

Do you think that a Disclosure Framework should include guidance for applying materiality? If you disagree, please provide your reasoning.

Yes, we agree with providing guidance. By setting out clear guidance for applying materiality, preparers would be able to prepare F/S with consistency and thus remove many diversities in practice.

Question 4.3

Is the description of the approach clear enough to be useful to improving the application of materiality? If not, what points are unclear or what alternatives would you suggest?

The Discussion Paper clearly sets out that not all information related to a line item is material even when the line item is of materiality. We believe that providing guidance for applying materiality would enhance the application of materiality.

Question 5.1

Chapter 5 includes proposals for improving the way disclosures are communicated and organised.

Would the proposed communication principles improve the effectiveness of disclosures in the notes? What other possibilities should be considered?

Yes.

Question 5.2

Do any of the suggested methods of organising the notes improve the effectiveness of disclosures? Are there different ways to organise the disclosures that you would support?

Yes. The KASB prefers the flexible approach among the alternative approaches to organising information (flexible approach and grouping information) for the following reason.

Including significant information first in the notes would allow users to effectively understand the information in a shorter period of time. However, there is a risk that the entity may arbitrarily decide the order of priority without taking users into consideration. Thus, it is necessary to identify what information is of priority to users and develop streamlined guidance or examples thereof.

Question 6.1

Are there any other issues that you think need to be addressed to improve the quality of information reported in the notes to the financial statements? Please explain how you think these issues should be addressed and by whom.

1. The need to analyse and address the root causes of key disclosure issues

While the Discussion Paper suggests disclosure overload and lack of organisation and communication as the key issues to be addressed regarding disclosures, it does not mention how those issues should be analysed and addressed. There may be a variety of causes that induce the issues and one of the causes we believe is that preparers and users apply a different level of materiality to the information value of disclosures in the notes from each other.

Preparers tend to relatively underestimate the information value of disclosures and are usually busy fulfilling their disclosure duties required by the standards. If preparers place as much information value on disclosures as users, preparers would focus on prioritizing disclosure items and disclosing important pieces of information in a clear and understandable manner, and thus the issues set out in the Discussion Paper would not arise in the first place. Thus, how to enhance the level of information value of disclosures taken by preparers up to the level of users should form a critical part of the discussion on disclosures.

2. Considerations needed in F/S preparation: Clarification of materiality concept

Preparers tend to include excessive amount of disclosures for the following reason:

- Disclosures are used as a dumping ground in practice. That is, while disclosures do include material information, the amount of disclosures in the notes tend to increase because any residual information not included on the face of financial statements often end up in the notes regardless of their materiality.

Therefore, in order to address the issue, the information to be included in the disclosures should not simply be viewed as a complementary set of information to the financial statements. The concept of materiality should be clarified as described below from the users' point of view as this would prevent possible omission of material information as well as help eliminate immaterial disclosures.

- Provide a clear concept of materiality: If knowing a certain piece of information would change users' evaluation of the entity, that piece of information is material and should be disclosed. That is, if a certain piece of information in the notes to the financial statements may change users' evaluation of the entity's cash flows, that evaluation based solely on the information obtained from the face of the financial statements, then that piece of information must be disclosed in the notes. (E.g., sales with customer refund rights or the fact that sales are concentrated around a small number of customers)

3. The need to provide detailed disclosure requirements

The Discussion Paper sets out the issues relating to disclosures and provides the basic principles, indicators and alternatives to resolve those issues, and we agree with the general direction of the Discussion Paper. However, we do believe that there should be a more detailed direction regarding disclosures.

For example, while the future prospect of business is a useful piece of information to users, the question of whether to disclose this information in the notes would cause controversy. Thus, classifying information according to its nature, drawing up a list of information deemed necessary for each classification, and sending out invitations to comment thereon would be useful for future establishment of disclosure requirements. The questions in Chapter 2 of the FASB's recently issued 'Disclosure Framework' are a good example. We thus believe that it would be helpful to consider an approach as that taken by the FASB.

4. Result of KASB's outsourced research project on disclosures

The KASB requested an external research¹⁾ team consisting of university professors and experts from accounting firms to research into the disclosure practice of IFRS-applying Korean companies as well as ways to improve disclosures.

The research team surveyed a plurality of stakeholders, including information preparers, information users, and auditors, and the result of the (multiple-choice method) survey showed that 41% of the preparers and 29% of the users viewed that the disclosure requirements of K-IFRS need improvement.

Although it can be said that the survey showed most respondents were satisfied with the existing disclosure requirements of K-IFRS, it must also be noted that such a conclusion is only reached in the average sense. Thus, to improve the disclosure requirements, the focus should not remain just on the views of the majority. We believe that even greater attention should be paid to the complaints from the minority respondents and their views should be taken into serious consideration as they are likely to have come from sincere and prudent deliberation. In this regard, the ways to improve the disclosure requirements are proposed as below based on a comprehensive review of the responses to the survey.

One of the responses received pointed out the insufficiency of disclosure information. Although this may seem to be the opposite to the disclosure overload issue point out in the Discussion Paper, it is important to keep this in mind as this would help prevent focusing on mere reduction of the volume of disclosures just to address the overload issue.

-The respondents considered that disclosures are insufficient in the following areas:

- Investment in associates: ownership percentage and market price of the investment for each period or net asset value of the investment for each period
- Capital management: the management methods actually executed by the entity, capital risk management systems, the target level of ratios relating to capital risk management, and the methods to improve the financial structure (rather than simple description of the status quo, such as the current debt ratio)

¹⁾ Ko, Wanseok, Daegil Chung, and Haejin Sohn. "Case Study on IFRS Disclosures: the Status quo of K-IFRS Disclosures and Improvement Measures thereof." KASB Research Report 29 (March 2012). Seoul Korea.

- Fair value hierarchy of financial assets and financial liabilities: detailed disclosure of the related basis which would allow identifying how the classification is arranged according to level 1, 2, and 3
- Financial instrument risks

The sufficiency of disclosures for the above areas should be considered when revamping the disclosure requirements in the future.