

Communiqué – Three Countries Meeting

The Korea Accounting Standards Board (KASB) held the *2018 Three Countries Accounting Standards Setters' Meeting – China, Japan, Korea* in Busan, Korea on October 19, 2018. Mr. Peng Wang, Deputy Counsel of Ministry of Finance, P.R.China, Mr. Yukio Ono, Chairman of the Accounting Standards Board of Japan (ASBJ), Mr. Eui-Hyung Kim, Chair of the Korea Accounting Standards Board (KASB), as well as other delegates from these three countries joined this meeting. The delegates from Hong Kong and Macau, including Ms. Shelley So, representative of the Hong Kong Institute of Certified Public Accountants and Mr. Ng Pou Man, Member of Committee for the Registry of Auditors and Accountants of Macau also attended the meeting. In addition, Mr. Makoto Takahashi, Director of IFRS Foundation Asia Oceania Office was present at the meeting.

Update on activities during 2018

China, Japan and Korea provided updates on their recent activities: China updated on the progress of implementation of lease and insurance standards in the Chinese GAAP (Chinese Accounting Standards for Business Enterprises: ASBEs) and presented the future outlook; Japan highlighted the trend that the number of companies using IFRS voluntarily is steadily increasing and updated the status of its current projects; and Korea broadly covered its major activities, including research, education and international activities.

Special session: Reform of the legislation on accounting and audit in Korea

Joong-Kyung Choi, Chairman of Korean Institute of Certified Public Accountants, introduced a recent reform of legislation on accounting and audit in Korea in the special session. He started the presentation speaking on the importance of accounting transparency in achieving sustainable economic growth. Then he presented the main pillars of accounting reform in Korea: periodic mandatory designation of an auditor by regulatory body; minimum standards input; and enhanced level of punishment. Lastly, he recommended the academics to pay attention to this reform of legislation in Korea as it would be a good item for the future empirical research.

Technical session

Business combination under common control (BCUCC)

A representative of the CASC updated on the Chinese Accounting Standard for BCUCC and reported preliminary findings from CASC's survey of stakeholders on BCUCC. Among 196 respondents, most of them think that the commercial substance of BCUCC and BCUNCC is different, and that the controlling party is the most important primary information user to BCUCC. Over half of the respondents view the predecessor method as the better accounting method for BCUCC compared with other methods based on fair value such as the acquisition method. In addition, CASC raised practical issues pertaining to BCUCC involving NCI. The three countries observed that predecessor method is mostly used in their practices and agreed that they would work together to contribute to the IASB's BCUCC project.

Virtual currencies

A representative of the ASBJ raised an issue about the issuer's liabilities and any related income from ICOs (Initial Coin Offerings). He suggested two ways of accounting, one is to recognize liabilities at the amount of the proceeds received from investors, and the other is to recognize liabilities at the value of the obligations to provide the services. Various opinions were presented about the issue. For example, the issuer's implicit obligation in ICO should also be considered even if it is not defined in a white paper. Also, whether the token is collected after providing the service could affect the accounting treatment. After discussion on the topic issue, participants exchanged their views on the general accounting treatment of virtual currencies.

Challenges for intangible assets reporting

A representative of the KASB explained the result of KASB's research on intangible asset reporting in Korea. He pointed that intangible assets are considered as an important source of firm value creation in the new economy, but the current system of financial reporting fails to present them in the financial statements properly. Also, he insisted that it results in investor's neglect of financial statement, decreasing value relevance of accounting information. In conclusion, he suggested alternative channels for intangible asset reporting such as MD&A, Intellectual Capital reports, Sustainability report, etc. After the presentation, China, Japan, and Korea discussed further relating issues such as the role of financial statement and primary financial statement, and Chair of KASB mentioned the necessity of joint research among three countries on this area.

Closing remarks

Mr. Yukio Ono announced that the next meeting will be held in Japan in late 2019.

Mr. Eui-Hyung Kim thanked all attendees for their active participation in the meeting. He noted that this year's meeting was meaningful in that the meeting covered relevant topics and led to in-depth discussions.