

## 2006 China · Japan · Korea Accounting Standard Setters Meeting

### Report of Activities

The 2006 China · Japan · Korea Accounting Standard Setters Meeting was held at Hotel Seoul KyoYuk MunHwa HoeKwan in Seoul, Korea for two days on 30 and 31 August 2006.

The Meeting's main participants were (a) six delegates of the China Accounting Standards Committee (CASC), headed by Mr. Wang Jun, Vice-Minister of Chinese Ministry of Finance (MOF) and Secretary-General of CASC; (b) seven delegates of the Accounting Standards Board of Japan (ASBJ), headed by Mr. Shizuki Saito, Chairman of ASBJ; and (c) seven Board Members and six researchers of the Korea Accounting Standards Board (KASB), headed by Mr. Hyoik Lee, Chairman of KASB.

This year's Meeting also had representatives of the International Accounting Standards Board (IASB)—including Mr. Thomas E. Jones, Vice-Chairman of IASB, and Mr. Tatsumi Yamada, IASB Board Member—as special invitees and delegates of the Hong Kong Institute of Certified Public Accountants and Macao Committee for Registry of Auditors and Accountants as observers (see Appendix for a detailed list of participants).

The CASC, ASBJ, and KASB presented updates on recent developments in their national accounting standards and on their policy and efforts toward global convergence of accounting standards and gave reports on the progress of the joint working group (JWG) in relation to addressing three accounting issues of mutual interest. As a means to commemorate the seventh anniversary of the foundation of the KASB, the Center for Accounting Research of Seoul National University presented a research report and the three standard setters actively participated in the related panel discussions. The following are detailed summary reports of the three standard setters' activities during the Meeting:

#### Updates of Each Standard Setter's Activities (30 August)

1. Mr. Seungbok Park, Chairman of Korea Listed Companies Association, delivered a Congratulatory Address in which he lauded the cooperative efforts of the three standard setters.
2. Mr. Chungwoo Suh, Vice-Chairman of KASB, gave a presentation on recent developments in Korea Accounting Standards and on KASB activities. Some of the major contents included the following:
  - Since October 2005, the KASB issued two new Statements of Korea Accounting Standards—SKAS 22, Share-based Payments, and SKAS 21, Preparation and Presentation of Financial Statements I—and an exposure draft on Employee Benefits. There are also three SKASs that are at their near-final stages of completion.

- The Korea Financial Supervisory Commission announced formation of a special task force in January 2006 to develop a roadmap for fully adopting IFRSs in Korea, and the roadmap is expected to be publicized soon. Once the government announces its official roadmap for fully adopting IFRSs in Korea, K-IFRSs (Korean versions of IFRSs with, if deemed necessary, removal of optional treatments or addition of disclosure requirements) will be issued by the KASB through a simplified due process. It will be made mandatory for listed entities and non-listed financial institutions to apply K-IFRSs.
  - Research has been in progress on the future development of accounting standards for non-public entities (NPEs) in Korea, in line with full adoption of IFRSs. To that end, the KASB will wait for the completion of the IASB's SMEs standard to explore the possibility of localizing the Standard.
  - The KASB will continue to seek active participation in developing IFRSs by, among others, enhancing the overall quality of comments on IASB and IFRIC exposure drafts or discussion papers and by carrying out active exchange of information & views with the CASC, ASBJ, and other national standard setters.
3. Mr. Liu Yuting, Director-General of Chinese MOF, gave a presentation on China's convergence efforts and achievements. Some of the major contents included the following:
- The release of Chinese accounting standards system for business enterprises that included 1 Basic Standard and 38 Specific Standards by China on 15 February 2006 indicates realization of convergence on the substantial matters between Chinese accounting standards and IFRSs.
  - China's strategy of convergence on substantial matters has the following characteristics: First, China observes the four guiding principles: convergence is the direction; convergence is not the same; convergence is a process; convergence is an interaction. Second, China's convergence with IFRSs only covers accounting recognition, measurement, and reporting principles. It does not copy IFRSs in terms of style, language, and serial number, and it maintains its own Chinese characteristics. Third, some provisions about related party transaction disclosure, reverse of impairment of assets, and application of fair value that are different from IFRSs but conform with the reality of China, which are formulated in view of the numerous state-owned entities (SOEs) in China and the market economy that is yet to be developed and improved. These provisions have been acknowledged by the IASB and some of them have been utilized in issuing amendments of relevant standards by the IASB.
  - China attaches great importance to the development of the implementation mechanism for accounting standards and has adopted a variety of measures to guarantee implementation of accounting standards such as overall planning, formulation of guidance and interpretations, direct organization of scale training, HR development, mock testing, and joint supervision and management while actively promoting development of accounting standards and global convergence.
4. Mr. Ikuo Nishikawa, Vice-Chairman of ASBJ, gave a presentation on Japan's progress towards convergence. Some of the major contents included the following:

- Based on the changing environments both in Japan and abroad, the ASBJ believes that it is an urgent task to attain convergence of respective accounting standards at least to enable investors to make equivalent investment decisions.
- The joint project meetings between the ASBJ and IASB has been held semiannually in Tokyo and London since March 2005, and at the meeting in March 2006, the ASBJ and IASB agreed to shift from a “phased approach” to a new “whole-picture approach”, in which all differences between Japanese GAAP and IFRSs are addressed simultaneously in order to accelerate convergence. This new approach classifies all major differences either into a “short-term project” or a “longer-term project”. The short-term projects will be completed by 2008. The remaining differences are classified into longer-term projects.
- In May 2006, representative of the ASBJ and US Financial Accounting Standards Board (FASB) started a series of periodic meetings to enhance dialogues between the two Boards so as to take an active role in global convergence of accounting standards. Both Boards agreed to continue exchanging views on longer-term issues and current concerns.

### **Progress Reports of the Joint Working Group (30 August)**

1. Mr. Seungjoon Yoon, Chief Researcher of KASB, presided the meeting and briefed on the activities of the JWG as follows:
  - In accordance with the Memorandum of Understanding signed at the 2005 China · Japan · Korea Accounting Standard Setters Meeting held in Xian, China, a Joint Working Group composed of technical staffs of the three standard setters was created to carry out joint research on sensitive accounting issues confronted by the three countries in their national standard-setting environments.
  - It was mutually agreed that the CASC would conduct research on Fair Value Measurement, the ASBJ on Revenue Recognition, and the KASB on Business Combinations Involving Entities under Common Control.
  - On 27 March 2006, the first meeting of the JWG was held in Shanghai, China, and preliminary drafts and views on the three topics to be researched were exchanged.
2. Ms. Jeong-won Yoon, Senior Researcher of KASB, gave a presentation on Business Combinations Involving Entities under Common Control and suggested the following tentative proposals of the KASB task force:
  - When determining the existence of common control, the KASB task force proposes to apply the concept of control used in IFRS 3, Business Combinations. According to IFRS 3, a group of individuals may control entities as a result of contractual arrangements. Even though a group of individuals do not make contractual arrangements, “close members of the family of an individual” used in IAS 24 may be regarded as a group of individuals with contractual arrangements that have ultimate collective power to effectively govern the financial and operating policies of an entity.

- Business combinations involving entities under common control do not involve acquisition of business or businesses, the controlling party continues to be influenced by the risk and benefits that existed prior to the combinations, and such combinations bring about only a change in legal form but not in reporting entity. Hence, the KASB task force believes that it is appropriate to account for business combinations involving entities under common control by the method similar to pooling of interests.
3. Ms. Li Hongxia, Deputy Director of Chinese MOF, gave a presentation on Fair Value Measurement. Some of the major contents included the following:
- The Chinese technical personnel believe that (a) it is more feasible to use major market information to define fair value; (b) the trading price of related parties may represent fair value except for the situation where the related party trading does not have commercial substance; (c) since there is no conceptual difference between trading cost and transportation fees, both of them should be deducted from fair value; (d) a specific standard should be provided for “reliable” measurement of fair value.
4. Mr. Tomoji Katayama, Technical Manager of ASBJ, gave a presentation on Revenue Recognition. Some of the major contents included the following:
- The ASBJ chose issues related to accounting for construction contracts as an issue to be addressed in the first phase of the revenue recognition project. It is one of the most critical issues on revenue recognition in terms of consistency with the conceptual foundations. The ASBJ will investigate fundamental notions of revenue recognition—particularly for construction contracts—as well as revenue recognition methods discussed by the IASB/FASB joint project. The ASBJ will then compare the results with the concept “release from risks of the investments”, which is the key for income determination in Japanese conceptual framework. The implementation issues for construction contracts will also be investigated, particularly on the percentage of completion method.
5. Mr. Seungjoon Yoon wrapped up the meeting as follows:
- The research issues of the JWG are chosen on the basis that they are practical problems currently encountered in the three countries with respect to global convergence of accounting standards and are intended to provide technical support for the annual China · Japan · Korea Accounting Standard Setters Meeting.
  - All discussions and views exchanged at JWG meetings are to be reported to the three standard setters. The three standard setters decide at their annual Meetings whether they should submit the results of JWG research to the IASB for reference when it issues or amends IFRSs.
  - The JWG research on the first three issues chosen are still works in progress, and the three standard setters will carry out the JWG research further and organize additional JWG meetings if necessary.

### Research Report by Seoul National University (31 August)

1. Mr. Cheonsik Yang, Vice-Chairman of Korea Financial Supervisory Commission, gave a Congratulatory Address in which he praised the camaraderie of the three standard setters and their strenuous efforts and inputs toward global convergence of accounting standards.
2. Mr. Lee-seok Hwang, Professor of Accounting at the Center for Accounting Research of Seoul National University, gave a presentation on a research report entitled The Role and Vision of National Accounting Standards Setters in the IFRS Environment: A Korean Perspective. Some of the major contents included the following:
  - The report requested the KASB to (a) devise ways in which it could minimize social costs related to the full- adoption plan of IFRSs in Korea; (b) become a central accounting research center in Korea that conducts comprehensive research on a broad range of current, emerging, and theoretical issues and to transform into a policy consultative body; (c) secure financial independence and more effective management of the organization; and (d) contribute to the promulgation and implementation of IFRSs (e.g. present opinions, conduct joint projects, and exchange human resources) and promote regional alliances (e.g. operate joint working groups with China and Japan on major accounting issues or hold joint symposia).
3. Panel discussion was followed by Mr. Chungwoo Suh, Vice-Chairman of KASB; Mr. Liu Yuting, Director-General of Chinese MOF; Mr. Taiji Ishii, Board Member of ASBJ; Mr. Thomas E. Jones, Vice-Chairman of IASB; Mr. Yonghwan Kim, Director of Korea Financial Supervisory Commission; and Mr. Kiun Ohn, Editorial Writer of Maeil Business Newspaper. Some of the major discussions included the following:
  - The Chinese side thought that it was the legal responsibility of national accounting standards setters to develop accounting standards that conformed to local needs and the orientation of convergence. Many problems and issues might arise in terms of the interpretation of the accounting standards, the conflict between the accounting standards and relevant laws and regulations and the need to develop corresponding standards to respond to local economic development requirements in Korea due to its complete convergence with IFRSs.
  - There was an overall reconfirmation that it is important for each national standard setter to carry out those roles set out in the Statement of Best Practices: Working Relationships with other Accounting Standard-Setters that was issued by the IASB in 2005. In addition, there was mutual understanding on the need for each national standard setter to inform the IASB of special circumstances and environments encountered in each jurisdiction so as to assist the IASB in developing IFRSs that will be able to suit the needs of all jurisdictions.

### Field Seminar

The main participants, special invitees, and observers of this year's Meeting were provided with the opportunity to visit Samsung Electronics, a leading multi-national corporation in Korea, and get an

overview of its Global Financial Reporting System (GFRS). The first session of the Field Seminar included introduction to brief history, management philosophy, and current product portfolio of Samsung Electronics. The second session included introduction to Samsung's GFRS and a general Q&A session.

### **Overall Wrap-up of the Meeting**

The CASC, ASBJ, and KASB mutually agreed that this annual meeting of the three standard setters, since their first Meeting in 2002, is an invaluable regional mechanism for accounting cooperation and acknowledged that rewarding achievements have been made, especially, in terms of sharing different concerns, views, and approaches each standard setter has toward global convergence of accounting standards. In addition, the three standard setters agreed to exercise all their efforts to sustain this annual event and their mutual cooperation in operating their Joint Working Group.

### **Next Meeting**

The 2007 China · Japan · Korea Accounting Standard Setters Meeting will be hosted by the ASBJ.

## Appendix

### Participants

China Accounting Standards Committee / Ministry of Finance	
Mr. Wang Jun	Vice-Minister of MOF Secretary-General of CASC
Mr. Liu Yuting	Director-General of MOF Member of CASC
Ms. Sun Zhijun	Director-General of MOF
Ms. Li Hongxia	Deputy Director of MOF
Mr. Lu Jianqiao	Deputy Director of MOF
Mr. Li Xudong	Principal Staff of MOF

Accounting Standards Board of Japan / Financial Accounting Standards Foundation	
Mr. Shizuki Saito	Chairman of ASBJ
Mr. Ikuo Nishikawa	Vice-Chairman of ASBJ
Mr. Taiji Ishii	Board Member of ASBJ
Mr. Tomoji Katayama	Technical Manager of ASBJ
Ms. Hiroko Ohashi	Technical Manager of ASBJ
Ms. Naoko Hatano	Technical Staff of ASBJ
Mr. Hiroshi Endo	Managing Director of FASF

Korea Accounting Standards Board / Korea Accounting Institute	
Mr. Hyo Ik Lee	Chairman of KASB
Mr. Chungwoo Suh	Vice-Chairman of KASB
Mr. Sung-Nam Kim	Board Member of KASB
Mr. Joseph Yong-in Shin	Board Member of KASB
Mr. Soon-Suk Yoon	Board Member of KASB
Mr. Sung-Sik Hwang	Board Member of KASB
Mr. In-Tae Hwang	Board Member of KASB
Mr. Sung-soo Kwon	Chief Researcher of KASB
Mr. Chan-hong Kim	Chief Researcher of KASB
Mr. Seung-joon Yoon	Chief Researcher of KASB
Mr. Kil-woo Lee	Chief Researcher of KASB
Mr. Se-hwan Park	Senior Researcher of KASB
Ms. Jeong-won Yoon	Senior Researcher of KASB

**Special Invitees**

<b>International Accounting Standards Board</b>	
Mr. Thomas E. Jones	Vice-Chairman of IASB
Mr. Tatsumi Yamada	Board Member of IASB
Mr. Thomas Seidenstein	Director of Operations of IASB

**Observers**

<b>Hong Kong Institute of Certified Public Accountants</b>	
Mr. Paul F. Winkelmann	Council member and Chairman of Financial Reporting Standards Committee , HKICPA
Mr. Ding Wai Chuen, Raphael	Deputy Chairman of Financial Reporting Standards Committee, HKICPA
Ms. Patricia McBride	Director of Standard Setting, HKICPA

<b>Committee for Registry of Auditors and Accountants (CRAC), Macao</b>	
Mr. Wong Weng Hang, Oscar	Senior Officer of CRAC
Mr. Chong Io Tong, Hughes	Senior Officer of CRAC
Mr. Lai Ka Hou, Andy	Senior Officer of CRAC