



THE COMMITTEE OF EUROPEAN SECURITIES REGULATORS

Ref.: CESR/08-094

CESR's advice on Canadian and South Korean GAAPs

CONSULTATION PAPER

April 2008



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I. Executive summary

1. CESR provides in this advice details of its work and conclusions concerning certain third country GAAPs in accordance with a mandate from the European Commission.
2. In summary CESR's advice to the Commission is as follows:
3. **Canadian GAAP:** CESR has conducted an assessment of the existing program to adopt IFRS in Canada, focusing in particular on whether this program is comprehensive and capable of being completed before 31 December 2011. This assessment has been based on information from four sources:
 - the CESR 2005 advice (ref CESR 05-230b);
 - a meeting with the IASB;
 - a meeting with a representative of the Canadian securities regulator; and
 - publicly available information issued by the Canadian Accounting Standard Board (AcSB) regarding the Canadian adoption program and its progress.
4. On the basis of the work described above, CESR believes it can draw the following conclusions:
 - The Canadian AcSB has made a public commitment in January 2006 to adopt International Financial Reporting Standards (IFRS) by 31 December 2011 and there is publicly available information giving details of both the program and the progress the Canadian Authorities are making to achieve it;
 - Effective measures are being taken to secure a timely and complete transition to IFRS by that date as indicated in the timetable provided in paragraph 31;
 - The Canadian authorities are showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) are involved in the process.
5. CESR is consequently of the opinion that the adoption program in Canada is comprehensive and has no reason to doubt that the Canadian AcSB will achieve its objectives by 2011.
6. On this basis, if the Commission were minded to allow Canadian issuers to use Canadian GAAP when accessing EU markets, CESR would recommend the Commission accept Canadian GAAP according to article 4 of the Commission Regulation on the mechanism for determining equivalence of third country GAAP (Commission Regulation EC N°1569/2007).
7. **South Korea:** CESR has conducted an assessment of the adoption program for IFRS in South Korea, focusing in particular on whether this program is comprehensive and capable of being completed before 31 December 2011. This assessment has been based on information from four sources:
 - a meeting with a representative of the South Korean securities regulator (the FSC);
 - relevant documents received from the Korean Accounting Standard Board (KASB) and the FSC;
 - a meeting with the IASB; and
 - publicly available sources regarding the adoption program in South Korea and its progress.
8. On the basis of the work described above, CESR believes it can draw the following conclusions:
 - The Korean Financial Supervisory Commission (KFSC) and the Korean Accounting Institute (KAI) have made a public commitment in March 2007 to adopt IFRS by 31 December 2011 and there is publicly available information giving details of both the program and the progress the South Korean authorities are making to achieve it;
 - Effective measures are being taken to secure the timely and complete transition to International Financial Reporting Standards by that date as indicated in the timetable provided in paragraph 53;



- The South Korean authorities are showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) are involved in the process.
9. CESR is consequently of the opinion that the adoption program in South Korea is comprehensive and has no reason to doubt that the KIA will achieve its objectives by 2011.
 10. On this basis, if the Commission were minded to allow South Korean issuers to use South Korean GAAP when accessing EU markets, CESR would recommend the Commission accepts South Korean GAAP according to article 4 of the Commission Regulation on the mechanism for determining equivalence of third country GAAP.

II. Introduction

Background

11. The Prospectus Directive and Regulation (“the prospectus regime”)¹ and the Transparency Directive² will require the European Commission (“EC or the Commission”) to establish by mid 2008 whether a given third country GAAP is equivalent to IFRS³.
12. As a result of the prospectus regime, third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required from 1st January 2007 to publish a prospectus including financial statements prepared on the basis of IFRS adopted pursuant to EC Regulation 1606/2002 or on the basis of a third country’s national accounting standards (“third country GAAP”) equivalent to those standards. From the period 1 January 2007 until 31 December 2008, appropriate transitional arrangements apply under Article 35 of the Commission Regulation on prospectuses.
13. Similarly, under the Transparency Directive, from January 2007 third country issuers whose securities are admitted to trading on an EU-regulated market will also have to provide annual and half-yearly financial statements which should either be prepared in accordance with IFRS adopted pursuant to EC Regulation 1606/2002 or third country GAAP equivalent to those standards. Appropriate transitional arrangements also apply under Article 26 (3) of that Directive.
14. In December 2006 the EC adopted two measures⁴ allowing a two-year transitional period (until January 2009) during which third country issuers can prepare their annual financial statements and half-yearly financial statements in accordance with the accounting standards of Canada, Japan or the United States. The aim of these transitional provisions was to give more time to the standard setters and regulators of those countries to continue with their convergence processes. As other countries are also in the process of converging their national GAAPs to IFRS over various periods of time, the Commission considered it appropriate to allow the same two-year transitional period to third country issuers preparing their annual and half-yearly financial statements in accordance with a GAAP that is converging to IFRS, provided certain conditions are met.
15. The abovementioned December 2006 measures envisage a different treatment of third country issuers before and after January 2009:
 - Transitional period until January 2009. During this phase, accounting frameworks other than IFRS, Canadian, Japanese or US GAAP may be used subject to certain conditions⁵. The decision to accept other accounting frameworks is the responsibility

¹ Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC / Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements.

² Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004 on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market and amending Directive 2001/34/EC.

³ The term “IFRS” should be understood in this paper as referring to IFRS as adopted by the EU.

⁴ Commission Regulation 1787/2006 of 4 December amending Commission Regulation 809/2004 on prospectuses and Commission Decision 2006/891/EC of 4 December 2006 on the use by third country issuers of securities of information prepared under internationally accepted accounting standards (“the Transparency Decision”).

⁵ According to the revised Article 35.5A (c) of the Prospectus Regulation (and the similar provision in the Transparency Decision) these conditions are:

of the competent authority, although recitals in the two measures state that *“To ensure consistency within the Community, CESR should co-ordinate the competent authorities’ assessment as to whether those conditions are satisfied in respect of individual third country GAAP”*.

- After the transitional period, a third country’s GAAP will be acceptable only if it has been determined equivalent to IFRS by the European Commission pursuant to their definition of equivalence which they will establish by 1 January 2008. The Commission will consult CESR on the appropriateness of the definition of "equivalence", the "equivalence mechanism" and the actual determination of equivalence.
16. At least six months before 1 January 2009, the Commission shall ensure a determination of the equivalence of the GAAP of third countries, pursuant to a definition of equivalence and an equivalence mechanism that it will have established before 1 January 2008. In order to start the process for determining equivalence, the EC has asked CESR for advice in several phases. In March 2007 CESR submitted to the European Commission its first advice containing a definition of equivalence.
 17. In June 2007, CESR submitted second advice on a mechanism for determining the equivalence of the GAAPs of third countries to the European Commission. On the basis of this second advice, the Commission has published Regulation (EC) 1569/2007 *“Commission Regulation establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council”* (“Commission Regulation on the mechanism”). The Regulation lays down the conditions under which the GAAP of a third country may be considered equivalent to IFRS pursuant to a definition of equivalence set in article 2. The Regulation also sets out in article 4 certain conditions for the acceptance of third country accounting standards for a limited period expiring no later than 31st December 2011.
 18. In December 2007, CESR published for public consultation a technical advice on the equivalence of Chinese, Japanese and US GAAPs (ref/CESR 07-761). In this paper, CESR indicated that it intended to consult on other GAAP subsequently if requested to do so by the European Commission.
 19. On 21 March 2008, CESR did in fact receive such a request from the Commission to provide advice to it in respect of Canadian, Indian and South Korean GAAPs. This document addresses CESR’s work concerning a potential decision on the equivalence of the accounting standards of two of those countries namely Canada and South Korea. CESR does not make any proposals in this Consultation Paper regarding Indian GAAP as it is still in the process of obtaining information about the situation regarding the use of IFRS in that country. The European Commission’s deadline to CESR for delivering advice on Indian GAAP is later than that for its advice on Canada and South Korea (9 May as opposed to 25 April).
 20. Within CESR, the operational group CESR-Fin chaired by Fernando Restoy, executive board member of the Spanish CNMV, has been charged with fulfilling the EC’s request.

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- (i) The third country authority responsible for the national accounting standards in question has made a public commitment, before the start of the financial year in which the prospectus is filed, to converge those standards with IFRS;
 - (ii) That authority has established a work programme which demonstrates its intention to progress towards convergence before 31 December 2008; and
 - (iii) The issuer provides evidence that satisfies the competent authority that the conditions in (i) and (ii) are met.

Public Consultation and Timetable

21. Comments are invited on all aspects of this paper but where we anticipate that feedback will be particularly useful, we have directed stakeholders to some issues for particular comment.
22. The consultation period closes on 25 April 2008. Respondents are invited to send their comments via CESR's website (www.cesr.eu) under the section "Consultations". CESR acknowledges that this is a shorter period than would normally be expected but this results from the Commission's deadline to CESR to report to it, which is also set for the 25th April 2008. CESR will assess the responses received and revise its proposals if necessary. CESR expects to submit the final advice to the Commission around the end of May. All responses that have not been labeled as confidential will be published on CESR's website.

III. Canadian GAAP

Extract from the Commission's mandate⁶

We (the Commission) would like to ask you (CESR):

For the national GAAP of countries whose national authority responsible for the national accounting standards has made a public commitment to adopt IFRS before 31 December 2011, to provide an assessment of the existing adoption program focussing especially on whether it is comprehensive and capable of being completed before 31 December 2011.

Description of the adoption program in Canada

23. In January 2006, the Accounting Standards Board of Canada (AcSB) adopted a *Strategic Plan*, which included a requirement that Canadian publicly accountable enterprises, in particular listed companies, move to using International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
24. The adoption of IFRS in Canada will take place without any carve-out or endorsement of the standards and the AcSB intends to adopt IFRSs without modification. The AcSB does not intend to delete options from IFRSs or otherwise change them, and under no circumstances does the AcSB intend to make changes that would result in non-compliance with IFRSs.
25. The AcSB expects to issue an exposure draft in the second quarter of 2008 covering all IFRSs as of January 1, 2007. This so called "Omnibus" exposure draft will serve as a benchmark version of IFRS to be adopted at the changeover date to IFRS. The Omnibus exposure draft will address all matters the AcSB believes relevant to the use of IFRS in the Canadian markets and will include a proposed formal definition of publicly accountable enterprises (those entities to be required to use IFRS). Respondents to the Omnibus exposure draft will be asked to identify any particular difficulties they might foresee in applying IFRS in the Canadian markets or in making the transition. However, as stated above, the intention of the Canadian authorities is to adopt IFRS in full without modifications and any issues raised by respondents will be referred where relevant to the IASB. After the Omnibus exposure draft, the AcSB will issue additional exposure drafts covering any changes to IFRSs made or proposed by the IASB between January 1, 2007 and the changeover date for adoption in Canada.

⁶ Please refer to appendix I for the full mandate from the European Commission.

Scope of the adoption program

26. The *Strategic Plan* specifies that IFRSs are to be adopted as Canadian GAAP for publicly accountable enterprises (PAEs). Accordingly, the Plan encompasses listed companies and some other classes of non-listed enterprises.

Legal environment of the adoption program

27. In Canada, the AcSB is the independent body with all the powers necessary to develop and establish standards and guidance governing financial accounting and reporting. It has the power to issue and publish accounting pronouncements on its own authority which are made mandatory by Canadian law for issuers to follow without any additional approval of the standards themselves being required by any governmental body.
28. Consequently the proposed implementation of the new IFRS-based standards does not require agreement by any government agencies nor any legislative bodies. That said however, the AcSB is maintaining a dialogue with government and regulatory agencies that have an interest in financial reporting issues to help ensure the changeover is achieved in a smooth, orderly fashion.
29. At present all federal, provincial and territorial laws, regulatory rules and other such requirements related to financial reporting in Canada make reference to “Canadian GAAP”. Therefore, a change in those laws and rules is necessary for publicly accountable issuers to be able to refer to “IFRS as adopted by the IASB” instead of “Canadian GAAP”. To address this issue, Canadian Securities Administrators issued a concept paper in February 2008 (concept paper 52-402). This concept paper amongst other things makes proposals regarding the possible early adoption of IFRS by Canadian domestic issuers⁷ and the possible reference by issuers to “IFRS as issued by the IASB” (IFRS/IASB) instead of “Canadian GAAP”.

Timetable – Key events

30. The AcSB’s implementation plan for incorporating IFRSs into Canadian GAAP was announced at the same time as the *Strategic Plan*, and identifies the key decisions that the AcSB will need to make in order to implement the Plan for publicly accountable enterprises.
31. The following timeline gives an indication of the key milestones that will need to be met in order that the Canadian adoption programme can be achieved, based on current assumptions in the *Strategic Plan* and a changeover of 1st January 2011 as announced by the AcSB in March 2008.

2006-2008	Obtain training and thorough knowledge of IFRS
2008	Changeover timing announced by the AcSB following progress review Expected publication of the “Omnibus” Exposure Draft
2010	Last year of reporting under current Canadian GAAP
2011	Changeover. First year of reporting under new IFRS-based standards Enterprises issuing interim financial statements will prepare their first IFRS-based statements for the three months ended March 31, 2011

⁷ Canadian domestic issuer: domestic issuers that are subsidiaries of entities based in a foreign jurisdiction that requires compliance with IFRS or domestic issuers with significant foreign operations in jurisdictions where the operating subsidiaries must prepare financial statements in accordance with IFRS

32. The relatively lengthy conversion period (2007 – 2011) is designed to ensure entities have enough time to approach the task in a considered fashion allowing them to scope the changeover exercise and all its ancillary consequences before plunging into the details of conversion.
33. Throughout the transitional period, the AcSB will monitor, among other things, Canada's progress towards achieving the program, the IASB's activities and the extent of acceptance of IFRSs by or alternatively the difficulties encountered with their implementation by other members of the international community. The AcSB will also be consulting regularly with the Canadian Securities Administrators and other appropriate regulators regarding their experiences.
34. Finally The AcSB has launched training and educational programs for preparers and practitioners.
35. IFRS knowledge in Canada is starting to become more widespread but over the next few years, market participants will face some IFRS education and resource challenges. Aware of this, the Canadian authorities are taking appropriate measures now to attempt to ensure a smooth transition to IFRS in 2011 such as consulting and making appropriate contact with companies, investors and auditors.

Adoption of future IFRSs

36. The AcSB has announced that all future IFRSs issued by the IASB will also be adopted in Canada, using the same procedure as that used for the original set of standards in 2011 (i.e. via the issuance of exposure drafts for public comment).
37. The AcSB will therefore closely monitor the IASB's activities and respond directly to the IASB on any documents it issues for comment. It will also encourage market participants in Canada to respond as well.
38. Finally, the AcSB will ensure that documentation, such as exposure drafts and final standards continue to be issued in both of Canada's official languages.

Assessment of the application of the standards

39. In its June 2005 advice, CESR provided a description of the enforcement mechanism in Canada (ref CESR 05-230b, paragraphs 183 to 261)
40. CESR is not aware that the system of enforcement has changed in Canada and it should not change with the introduction of IFRS. Canada will inevitably face issues implementing the new standards just as the EU did but given that the system is established this is not an issue on which CESR believes it needs to focus for the purpose of this advice.

Global assessment of the adoption program

41. The equivalence of Canadian GAAP to IFRS was assessed by CESR in its 2005 advice (ref CESR/05-230b). However, in its last mandate (relating to Chinese, Japanese and US GAAPs), the European Commission did not request CESR to update its 2005 advice in relation to Canadian GAAP, either by reassessing the situation regarding proposals to eliminate the differences between Canadian GAAP and IFRS identified in its 2005 advice or by assessing the equivalence of Canadian GAAP, as it requested in relation to US GAAP and Japanese GAAP.
42. The Commission did not ask CESR to provide this update primarily because in early 2006, subsequent to CESR performing its original work, the Accounting Standards Board of Canada



announced its strategic plan to adopt IFRS in 2012. The focus of the European Commission has therefore subsequently been on the progress Canada is making towards adopting IFRS rather than on any subsequent convergence of existing Canadian GAAP with IFRS.

43. The European Commission has therefore requested that CESR provide it with an assessment of the existing program to adopt IFRS in Canada, focusing in particular on whether this program is comprehensive and capable of being completed before 31 December 2011. This assessment has been based on information from four sources:
- the CESR 2005 advice (ref CESR 05-230b);
 - a meeting with the IASB;
 - a meeting with a representative of the Canadian securities regulator; and
 - publicly available information issued by the Canadian Accounting Standard Board (AcSB) regarding the Canadian adoption program and its progress.
44. On the basis of the work described above, CESR believes it can draw the following conclusions:
- The Canadian AcSB has made a public commitment in January 2006 to adopt International Financial Reporting Standards (IFRS) by 31 December 2011 and there is publicly available information giving details of both the program and the progress the Canadian Authorities are making to achieve it;
 - Effective measures are being taken to secure a timely and complete transition to IFRS by that date as indicated in the timetable provided in paragraph 31;
 - The Canadian authorities are showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) are involved in the process.
45. CESR is consequently of the opinion that the adoption program in Canada is comprehensive and has no reason to doubt that the Canadian AcSB may well be able to achieve its objectives by 2011.
46. On this basis, if the Commission were minded to allow Canadian issuers to use Canadian GAAP when accessing EU markets, CESR would recommend the Commission accepts Canadian GAAP according to article 4⁸ of the Commission Regulation on the mechanism.

Question: Given the circumstances described above, do you agree with CESR's assessment on Canadian GAAP?

⁸ Article 4 of the Regulation on the mechanism: **Conditions for the acceptance of third country accounting standards for a limited period**

Third country issuers may be permitted to use financial statements drawn up in accordance with the accounting standards of a third country in order to comply with obligations under Directive 2004/109/EC and, by derogation from Article 35(5) of Regulation (EC) No 809/2004, to provide historical financial information under that Regulation for a period commencing any time after 31 December 2008 and expiring no later than 31 December 2011 in the following cases:

1. The third country authority responsible for the national accounting standards concerned has made a public commitment before 30 June 2008 to converge these standards with International Financial Reporting Standards before 31 December 2011 and both the following conditions are met:
 - a) the third country authority responsible for the national accounting standards concerned has established a convergence programme before 31 December 2008 that is comprehensive and capable of being completed before 31 December 2011;
 - b) the convergence programme is effectively implemented, without delay, and the resources necessary for its completion are allocated to its implementation;
2. The third country authority responsible for the national accounting standards concerned has made a public commitment before 30 June 2008 to adopt International Financial Reporting Standards before 31 December 2011 and effective measures are taken in the third country to secure the timely and complete transition to International Financial Reporting Standards by that date, or has reached a mutual recognition agreement with the EU before 31 December 2008.

IV. South Korean GAAP

Extract from the Commission's mandate

We (the Commission) would like to ask you (CESR):

For the national GAAP of countries which have substantially converged to IFRS, to provide an assessment of the existing adoption program focussing especially on whether it is comprehensive and capable of being completed before 31 December 2011.

Description of the adoption program in South Korea

47. In March 2007, the Korean Financial Supervisory Commission (KFSC) and the Korean Accounting Institute (KAI) announced a road map for the adoption of South Korean equivalents of International Financial Reporting Standards (K-IFRSs). The announcement ceremony took place in Seoul on 15 March. The road map announcement stated an intention by the South Korean authorities to require all listed companies to prepare their annual financial statements under K-IFRSs by the beginning of 2011. Listed companies other than financial institutions will be permitted to prepare accounts using K-IFRSs from the beginning of 2009.
48. According to the KFSC, all new standards issued by the IASB will be immediately translated into Korean and adopted in South Korea in accordance with the adoption mechanism set out in paragraph 56 below.
49. In December 2007, the KAI announced the release of Korean International Financial Reporting Standards (K-IFRSs) which were based on IFRSs as issued by the IASB. As set out in the Roadmap, the KAI had completed the process of translating the English version of IFRS as adopted by the International Accounting Standards Board (IASB) as near as possible verbatim into Korean.
50. The KFSC has therefore been able to assure CESR that there are consequently no differences between K-IFRS and IFRS as issued by the IASB. The translation of the standards into Korean was done with the cooperation of the IASB.

Scope of the adoption program

51. In total, around 1700 companies listed in South Korea will be required to use K-IFRSs by 1 January 2011.

Legal environment of the adoption program

52. In South Korea, the KFSC is the authority with the ultimate legal power to set accounting standards and to oblige issuers to use them. It is permitted to delegate that standard-setting responsibility to an independent private-sector organization. Prior to 1999, the KFSC itself published all financial accounting standards in South Korea. With the agreement of the FSC, the Korean Accounting Institute (KAI) and the Korean Accounting Standards (KASB) Board were established in 1999 and given responsibility for setting financial accounting standards in South Korea.

Timetable – Key events

53. The following timeline sets out the key events dates for reporting enterprises adopting IFRS, based on current assumptions in the road map and an assumed changeover of 1 January 2011. More details on the timetable are provided in Appendix III.

Year	Work Plan
2006	<ul style="list-style-type: none"> Organization of IFRS Joint Task Force Preparation of IFRS Roadmap
2007	<ul style="list-style-type: none"> Announcement of Roadmap for the adoption of IFRS (15 March) Preparation of amendments to laws and regulations Copyright waiver contract with IASCF (27 September) Announcement of 'Korean translation of IFRS' (21 December)
2008	<ul style="list-style-type: none"> Organization of 'IFRS International Advisory Group' (January) Completion of amendments to laws and regulations Translation of guidance materials Adoption of new ISA (International Standard on Auditing) Analysis of impact of IFRS application Preparation of disclosure rules regarding the effects of first time adoption of IFRS in financial statements IFRS education and training
2009	<ul style="list-style-type: none"> IFRS application permitted for any company (other than certain financial institutions) Publication of simplified accounting standards (Local South Korean GAAP) for non-listed companies Requirement of note disclosures about some effects of adopting IFRS in financial statements IFRS education and training
2010	<ul style="list-style-type: none"> IFRS application permitted for any company Requirement of note disclosures about some further effects of adopting IFRS in financial statements IFRS education and training
2011	<ul style="list-style-type: none"> IFRS application required for listed companies Simplified accounting standards (Local South Korean GAAP) application required for non-listed companies Consolidation-based disclosure for listed companies IFRS education and training
2012	<ul style="list-style-type: none"> Analysis of IFRS adoption in South Korea and complementary measures

54. The KAI has started offering K-IFRS courses to CPAs and corporate personnel, and is committed to improving knowledge of the new standards. IFRS knowledge in South Korea is starting to become more widespread but over the next few years, market participants will face some IFRS education and resource challenges. Aware of this, the South Korean authorities are taking measures now to ensure a smooth transition to IFRS in 2011 such as consulting and making appropriate contact with companies, investors and auditors.
55. As at the time of delivering this advice, only the standards themselves have been translated into Korean but the KAI is also in the process of making translations of IFRS Guidance materials, which it plans to issue to the South Korean market in late 2008.

Adoption of future IFRS

56. Any new standard or interpretation issued by the IASB or the IFRIC in the future will be immediately translated and adopted by the KFSC as a new K-IFRS. The KASB and the IASCF signed a contract on 27 September 2007 on the translation and adoption of K-IFRS. Under this contract, amendments to IFRSs are prohibited (except with respect to the format of the standards). The existence of this contract is further evidence that there should be no differences between K-IFRS and IFRS as adopted by the IASB, as stated in paragraphs 49 and 50 above.
57. The KASB will also independently review new or amended standards and send comments to the IASB. The KASB has indeed put in place a due process similar to the one that the IASB follows for the purpose of setting standards. When necessary, KASB can also hold public meetings for further discussion with market participants, industry representatives and academics.

Assessment of the application of the standards

58. According to South Korean law, the FSC, through the Financial Supervisory Service (FSS) which is the executive arm of the FSC, has the power to review financial statements and to investigate and sanction issuers. It is also empowered to sanction auditors and consequently represents the body in South Korea charged with the enforcement of financial information and the oversight of the audit profession. Sanctions imposed on issuers and their management can take the following forms:
- Referral or notification to the Public Prosecutor's Office
 - Civil penalty;
 - Restriction of issuance of securities (for up to one year);
 - Recommendation of dismissal of officers;
 - Enforced appointment of a particular auditor or request for a change of statutory auditor (for up to 3 years);
 - Warning or caution;
 - Other necessary penalties such as a correction order.
59. The following table provides an overview of the levels of listed companies reviewed by the South Korean enforcer in the last four years:

Classification	2007	2006	2005	2004
No. of listed Co.	1,641	1,592	1,560	1,563
No. of reviewed	280	218	208	147
Ratio	17.1%	13.7%	13.3%	9.4%
Cycle	5.9yrs	7.3yrs	7.5yrs	10.6yrs

60. Appendix II also provides some more details about the enforcement system in South Korea, namely:
- A description of how enforcement is organized;

- A description of the enforcement process; and
- A list of sanctions the FSS can impose on issuers or their auditors

Assessment of the adoption program in South Korea

61. As in the case of Canadian GAAP, the European Commission has requested CESR to provide an assessment of the adoption program for IFRS in South Korea, focusing in particular on whether this program is comprehensive and capable of being completed before 31 December 2011. This assessment has been based on information from four sources:
- a meeting with a representative of the South Korean securities regulator (the FSC);
 - relevant documents received from the Korean Accounting Standard Board (KASB) and the FSC;
 - a meeting with the IASB; and
 - publicly available sources regarding the adoption program in South Korea and its progress.
62. On the basis of the work described above, CESR believes it can draw the following conclusions:
- The South Korean Financial Supervisory Commission (KFSC) and the Korea Accounting Institute (KAI) have made a public commitment in March 2007 to adopt IFRS by 31 December 2011 and there is publicly available information giving details of both the programme and the progress the South Korean Authorities are making to achieve it;
 - Effective measures are being taken to secure the timely and complete transition to International Financial Reporting Standards by that date as indicated in the timetable provided in paragraph 53;
 - The South Korean authorities are showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) are involved in the process.
63. CESR is consequently of the opinion that the adoption program in South Korea is comprehensive and has no reason to doubt that the KIA will achieve its objectives by 2011.
64. On this basis, if the Commission were minded to allow South Korean issuers to use South Korean GAAP when accessing EU markets, CESR would recommend the Commission accepts South Korean GAAP according to article 4 of the Commission Regulation on the mechanism.

Question: Given the circumstances described above, do you agree with CESR's assessment of South Korean GAAP?

V. FINAL CAVEAT IN RELATION TO THIS ADVICE

65. As stated in paragraph 66 of its May 2007 advice, CESR considers that a pre-requisite for any GAAP to be recognised as equivalent is that "filters" at the country level, and audit assurance and enforcement at the entity level are sufficient for investors to be able to rely on them. CESR also stated in that advice that for the purposes of establishing equivalence, CESR would also assume that third country GAAPs are properly applied and that the necessary filters for ensuring market confidence are in place for third country issuers using or participating in the EU capital markets.
66. CESR is aware that the Commission is performing work in order to establish the status of third country auditors under the 8th Directive and consequently has not attempted to perform its own assessment of such matters in the context of this advice. CESR would however point out that this advice will need to be considered in the light of the results of such work.



VI. Appendix

Appendix I – Request from the European Commission to CESR for technical advice



EUROPEAN COMMISSION
Internal Market and Services DG
FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE
The Director

Brussels, 13.03.08 00001015
DG MARKT/F3/JIH/pb D(2008) 3626

Mr. Eddy Wymeersch
Chairman
Committee of European Securities Regulators
11-13, Avenue de Friedland
75008 PARIS
FRANCE

Subject: Preparatory work concerning the determination of equivalence of third country GAAPs under the Transparency Directive and Prospectus Regulation

Dear Mr. Wymeersch,

I am pleased to inform you that on 21 December 2007 the Commission Regulation which defines equivalence and establishes the mechanism for determining the equivalence of individual third country GAAPs was adopted¹. This regulation enables the Commission to approach to equivalence determinations of third country GAAPs to be made in the course of this year.

In this respect I would like to thank you for the work you are undertaking based on our request of December 2007 to assess primarily the U.S., Japanese and Chinese GAAP. CESR's timely contribution by the end of February 2008 will be very important for the Commission in view of the equivalence determinations of these GAAPs.

The Commission shall report to the European Securities Committee and to the European Parliament on the evaluation of the equivalence of GAAPs of third countries in April 2008. By July 2008 the Commission must ensure a determination of equivalence of third countries, in accordance with the definition and equivalence mechanism established in the regulation mentioned above.

In the request we addressed to CESR in December last year and which was especially focused on assessment of GAAPs of U.S., Japan and China, we also mentioned that other

¹ Commission Regulation (EC) No 1569/2007 of 21 December 2007 establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council; OJ L 340, 22.12.2007, p. 66

GAAPs could be added at a later stage and that the equivalence mechanism has to remain open-ended if it is to meet the statutory objectives under the Prospectus regime and the Transparency Directive.

In this respect, we would like now to extend our request. We would like to ask you to:

For the national GAAPs of countries whose national authority responsible for the national accounting standards has established a convergence programme envisaged to be completed before 31 December 2011 and GAAPs of countries which are in the process of converging with IFRS (*India and South Korea*) or whose national authority has made a public commitment to adopt IFRS before 31 December 2011 (*Canada*), provide an assessment of the existing convergence programmes or programmes to adopt IFRS, focussing especially on whether it is comprehensive and capable of being completed before 31 December 2011.

This also implies that where, as a result of its assessment, CESR concludes that a particular third country GAAP does fulfil the criteria necessary for considering it as equivalent to IFRS, CESR should assess this GAAP as regards its full equivalence.

In view of the overall time-table as set out in the letter, CESR's third advice is sought preferably by **25 April 2008** as regards the assessment of the convergence programme of South Korean GAAP and the adoption programme of IFRS in Canada and by the later date of **9 May 2008** for the assessment of convergence programmes in India which may be a more complex exercise. This timing is necessary in order to allow the Commission to consider the national GAAPs of the third countries mentioned above in its determination of equivalence.

We acknowledge that the time pressure of this exercise is significant, both for the Commission and for CESR. The Commission will be making extensive use of CESR's advice and we greatly appreciate the excellent cooperation between the services of DG MARKT and those of CESR and look forward to it continuing on these challenging files.

Yours sincerely,

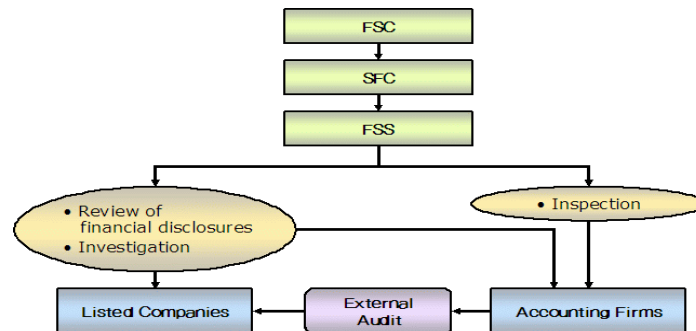


Pierre DELSAUX

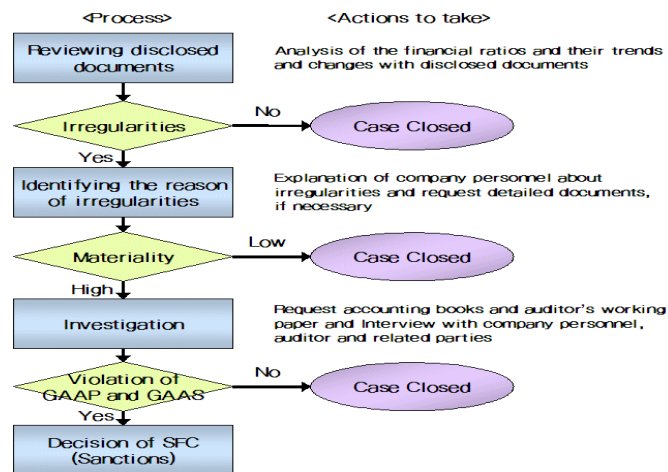
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Appendix II – Details of the enforcement system in South Korea (source: FSS)

Description of how enforcement is organized



Description of the enforcement process



List of sanctions the FSS can impose to issuers or auditors

Company	Auditor	Individual CPA
<ul style="list-style-type: none"> • Accusation or notification to Public Prosecutor's Office • Restriction of issuance of new securities • Recommendation of dismissal of officers • Auditor designation • Warning or caution 	<ul style="list-style-type: none"> • Accusation or notification to Public Prosecutor's Office • Cancellation of registration or Suspension of operation • Restriction of auditing specific companies • Additional contributions to the joint fund for damages • Warning or caution 	<ul style="list-style-type: none"> • Accusation or notification to Public Prosecutor's Office • Cancellation of registration or suspension of license • Restriction of auditing listed companies and designated companies • Restriction of auditing specific companies • Professional education • Warning or caution

Appendix III – Details of the timetable of the adoption program (source: FSS)

1. Progress of the year 2006

Organization of IFRS joint task force/Preparation of IFRS Roadmap

Korean government organized the IFRS joint Task Force⁹ to successfully adopt IFRS in Korea. With the objective of adopting IFRS, issues such as ‘whom and when’, ‘phased approach or big bang approach’ were addressed, discussed and coordinated through the official as well as unofficial meetings. There had been many discussions about the direction of adopting IFRS through symposium, round-table meetings and etc. and thus at the 8th joint TF official meeting, the detail adoption plan was finalized in February 2007.

2. Progress of the year 2007

Announcement of Roadmap for the adoption of IFRS (15 March)

The Korean government announced its roadmap for transition to IFRS in Korea. This marks the formal commitment for Korea to adopt IFRS into national GAAP by 2011. Main points of IFRS Roadmap are as follow:

- Financial statements under IFRS may be reported beginning in 2009 (excluding financial service companies) and will be made mandatory for all listed companies beginning in 2011.
- Simplified accounting standards (local Korean GAAP) will be permitted for unlisted companies.

The IFRS joint Task Force meeting was held on May and December for monitoring the progress of the roadmap implementation. The works of the IFRS joint Task force are as follows: monitoring progress against the roadmap, reviewing the necessary amendments to laws and regulations, assessing public monitoring of accounting and auditing practices, promoting IFRS education, etc.

Preparation of amendments to laws and regulations

FSC/FSS has reviewed amendments needed to laws and regulations, such as the Act on External Audit of Corporation which regulates financial reporting of companies whose asset exceeds KRW 7 billion and the Securities and Exchange Act which prescribes disclosure requirements of listed companies and companies that are going public. For the Act on External Audit of Corporation, amendments to division of accounting standard into two sets – Korean translated IFRS and simplified accounting standard- and IFRS adoption schedule/scope, etc. should be proposed. In addition, for the Securities and Exchange Act, amendments to the scope of consolidated-basis disclosure, etc. should be proposed. The necessary legal and regulatory changes are supposed to be completed by the end of 2008.

Copyright waiver contract with IASCF (27 September)

⁹ 16 representatives form FSS/FSC, Ministry of Finance and Economy, KASB, Korea Listed Companies Association, Korea Federation of Small and Medium Business, Korea Accounting Association, Korea Exchange, Korean Institute of Certified Public Accountants, and major accounting firms.

The Korea Accounting Standard Board (KASB) entered into an arrangement with the International Accounting Standards Committee Foundation (IASCF) under which the KASB is entitled to translate IFRS into Korean and the IASCF waives its rights over the Korean translation.

Korean government also has started fundraising efforts requesting domestic companies and investors to make voluntary contributions to IASCF. In May 29 2007 a financial support committee for IASCF was established to support the international accounting rule-setting process. As a result of the efforts, \$ 300 thousand was contributed to IASCF in 11 December 2007.

Announcement of 'Korean translation of IFRS' (21 December)

Approximately 70 experts were committed to translation work to publish them, and KASB considered comments about a draft of 'Korean translation of IFRS' submitted by regulator (FSS/FSC), preparers, auditors, and etc. Main policy on this work is full and accurate translation of IFRS without any additions or deletions.

As a result of the efforts above, The KASB released Korean translation of IFRS, which comprises 58 accounting standards and interpretations—37 standards and 21 interpretations—that will become Korea's Generally Accepted Accounting Principles by 2011. Per the Roadmap, the Korean translation of IFRS is to the Korean's national GAAP for listed companies through respective legislation procedure as prescribed in the Act on External Audit of Corporation.

3. Progress and plan of the year 2008

Organization of 'IFRS International Advisory Group' (January)

As part of efforts to internationalize Korean translation of IFRS for greater transparency and efficiency, Financial Supervisory Service (FSS) organized IFRS International Advisory Group. IFRS International Advisory Group consists of four foreigners –American, English, German and Spanish- and four Korean from the academic and business circles.

FSS released first discussion paper for consideration by the IFRS International advisory group (Release Nos. 2008-1, consolidated financial statements and separate financial statements), and then will take adviser's comments into account when regulatory body prepare policies on individual financial statements.

Completion of amendments to laws and regulations

The necessary legal and regulatory changes will be completed before the end of 2008.

Translation of guidance materials

KASB will issue the Korean version of guidance materials ('not integral part of the standards') such as Basis for Conclusion, Implementation Guidance, and Illustrative Examples by 2008 to help users understand the main body of IFRS and facilitate the application.

Adoption of new ISA

Current Korean standard on auditing is based on International Standard on Auditing (ISA), but KICPA (Korea Institute of Certified Public Accountant) is now preparing the Roadmap for the adoption of new ISA

to be more line with IFRS reporting framework. KICPA will issue the Korean version of new ISA by 2008, then auditor's report complied with new ISA will be required to companies whose assets exceed KRW 7 billion beginning in 2010.

Analysis of impact of IFRS application

FSS will research the European companies' transition experiences and thereby learn about the practical experiences that have successfully making the transition to IFRS. FSS also will research the impact of the adoption of IFRS on the Korean industry, economy, auditing practices and thereby take these results into account supervisory policies.

Preparation of disclosure rules on the note about IFRS effect on Financial Statements

New disclosure rules mandating companies to issue IFRS impact analysis and readiness report before IFRS take effect are planned in order to ensure an orderly transition to the new accounting regime. According to new disclosure rules, companies must make disclose about the impact of IFRS on their financial statements two year before they adopt IFRS (2009, 2010). This requirement will encourage companies to review their accounting policies and provide investors with information on the changes that IFRS will bring. We are now preparing policy on the note disclosure about IFRS effect on financial statements.

IFRS education and training

We are taking steps to promote education and training of IFRS to all affected parties such as preparers, auditors and financial institutions. We will encourage accounting associations such as KICPA(Korea Institute of Certified Public Accountant) and KLCA (Korea Listed Companies Association) to develop and distribute educational materials on IFRS and organize various programs to provide comprehensive training. The Korean authority is also setting up an IFRS-exclusive section on the FSS homepage for the public to have easy access to updated information on IFRS implementation and other relevant matters. This section will be launched at www.fss.or.kr in May 2008.

4. Plan of the year 2009

IFRS application permitted for any company

Financial statements under IFRS may be reported beginning in 2009 if companies (listed and non-listed) opt for early adoption.

Publication of Local Korean GAAP for non-listed companies

Simplified accounting Standards(local Korean GAAP) will be published by KASB for non-listed companies to avoid undue compliance cost by 2009. We are considering various alternatives for unlisted companies, including 'IFRS for SMEs'. Financial statements under local Korean GAAP will be mandatory for non-listed companies which do not choose IFRS beginning in 2011.

Requirement of note disclosure about IFRS effect on Financial statements



Companies will be required to disclose the impact that IFRS will have on their financial statements, such as the date of transition to IFRS, plans and degree of achievement for the transition.

5. Plan of the year 2010

IFRS application permitted for any company

Financial statements under IFRS may be reported beginning in 2010 if companies (listed and non-listed) opt for early adoption.

Requirement of note disclosure about IFRS effect on Financial statements

Companies will be required to disclose the impact that IFRS will have on their financial statements, such as the amount of the change to IFRS on the date of transition to IFRS in a sufficiently reliable manner the year before they adopt IFRS.

6. Plan of the year 2011

IFRS application required for all listed companies

Financial statements under IFRS will be mandatory for all listed companies and financial institutions beginning in 2011.

Local Korean GAAP application required for non-listed companies

Local Korean GAAP will be mandatory for non-listed companies beginning in 2011.

Consolidated-based disclosure

Although annual consolidated statements are currently required for disclosure, the IFRS Roadmap expands the applicable reporting periods for consolidated accounts. Under the Roadmap, adding to the current annual consolidated financial statements, quarterly and semi-annual consolidated statements will become parts of the main financial statements used for corporate disclosure.

7. Plan of the year 2012

Analysis of IFRS adoption in Korea and take complementary measures

FSC/FSS will conduct a review of the financial statements of the Korean companies subject to the application of IFRS to address the main subjects on which companies could usually improve their financial statements and whether companies whose financial statements comply with IFRS.