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Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia

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PREFACE

The rapid spread of IFRS around the globe in recent years is a remarkable achievement, considering that the primary goal of IFRS is to provide a single set of high-quality accounting standards that is expected to bring transparency, accountability and efficiency to financial markets around the world. However, having a common set of financial reporting rules such as IFRS across jurisdictions is a necessary, but not sufficient condition to ensure the global financial reporting comparability. To improve the quality and comparability of global financial reporting under IFRS, consistent application of IFRS across jurisdictions must be achieved.

This report investigates one source of potential inconsistencies – the interpretation of terms of likelihood in IFRS, such as 'probable', 'reasonably possible' or 'possible', in Korea and Australia, where distinctive differences in cultures and languages exist. The research identified at least 35 terms of likelihood in IFRS which represent challenges in coming to consistent application of IFRS across jurisdictions and found that most terms examined in this research tend to be interpreted inconsistently. Accordingly, we would like to emphasize that it will be useful for the IASB to consider narrowing down the number of terms of likelihood used in IFRS by retaining expressions which adequately cover the entire probability range. This may also help mitigate potential difficulties in the translation process. Also, we would like to suggest that the IASB consider providing guidance in the interpretation of expressions which are associated with lower communication efficiency.

We hope that this joint research report sets out meaningful implications to the IASB and other national standards setters; however, we acknowledge that the research has its limitations. Accordingly, we encourage further investigation into the use of language in IFRS, which is critical to guide judgments made in practice. In addition, we believe that it is necessary to encourage collaborative work among national standard setters and regional bodies which may facilitate efficient use of limited resources to contribute to develop a single set of high-quality global accounting standards.

This report is authored by Dr. Youngmi Seo, Technical Manager at KASB, with contributory assistance from Angus Thomson, Director of Research at AASB and Dr. Eric Lee, Project Manager at AASB. We would like to express our deepest gratitude to all those who were involved in this research for their efforts and their passion in carrying out this research project. We also received comment letters on a draft of the report from the AcSB, ASCG, ARDF, ANC, DASB and HKICPA, and are grateful for their valuable input. We also thank participants of the 2015 AOSSG Annual Meeting, the 2015 December ASAF meeting, and the 2016 IFASS Annual Meeting for their valuable comments and suggestions.

Lastly, please note that the views expressed in this research report are those of the author and do not necessarily represent the official views of the Korea Accounting Standards Board or Australian Accounting Standards Board.

July 2016

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Executive Summary

1 The primary objective of International Financial Reporting Standards (IFRS) is to develop and maintain a single set of high-quality global accounting standards and enhance international comparability of financial statements. Lack of uniformity in interpreting and applying the standards can impair the quality of financial statements.

2 One of the challenging aspects of applying IFRS is the interpretation and application of terms of likelihood, such as 'remote', 'likely', 'virtually certain' and 'probable' used in IFRS to denote levels of probability in prescribing recognition, measurement or disclosure of events and transactions in financial reports.

3 Prior research in the accounting literature provides evidence that there is lack of consensus among financial reporting stakeholders on interpreting terms of likelihood. Further, translation of IFRS into a different language may add another layer to the challenge of consistent interpretation of terms of likelihood.

4 The Korea Accounting Standards Board (KASB) and the Australian Accounting Standards Board (AASB) conducted a joint research project on accounting judgments on terms of likelihood used in IFRS.

5 Australia and Korea adopted IFRS in 2005 and 2011 respectively. Accordingly, it is reasonable to expect that auditors and preparers in both countries are familiar with IFRS. To date, there is little research on interpretation of terms of likelihood used in IFRS in the post-implementation IFRS era. Therefore, it is timely and relevant to investigate whether:

(a) there are differences in interpreting terms of likelihood by preparers and auditors; and

(b) translation of terms of likelihood are consistent with the intended expressions.

6 This research project is intended:

(a) to inform standard setters and other IFRS stakeholders on interpretation and translation issues regarding terms of likelihood; and

(b) to make recommendations to the International Accounting Standards Board (IASB) on ways in which terms of likelihood used in IFRS might be improved.

7 A survey questionnaire was developed by KASB and AASB staff and sent out to auditors and preparers in Korea and Australia. In Australia, the survey instrument was only available in English. In Korea, one survey instrument was made available in English and another in Korean[1].

[1] This is to explore whether there exist any differences between the interpretation of original English terms and Korean translation of these terms by Korean accounting professionals.

8 The survey addressed 13 terms of likelihood used in IFRS which relate to a level of probability of a transaction or event occurring[2]. Respondents were required to give their professional opinions on how the terms of likelihood should be interpreted by indicating the range of probability that each term of likelihood represents in percentage (%) terms on a scale of 0% to 100%.

9 The survey consists of a section that requires respondents to give their opinions on terms of likelihood in isolation and another section requires respondents to give their opinion on terms of likelihood by reference to a specific accounting context from IFRS. The survey also collects data on the background of respondents.

10 504 Korean accounting professionals (183 auditors and 86 preparers for the Korean version; 144 auditors and 91 preparers for the English version) responded to the survey and 208 Australian accounting professionals (88 auditors and 120 preparers) responded to the survey instrument in English.

11 The key findings of this research are:

(a) there are differences in interpretation of terms of likelihood between Korean and Australian accounting professionals when used in context and not in context. Some terms of likelihood are assigned with different rankings as well as different probabilities by accounting professionals in Korea and Australia;[3]

(b) some terms of likelihood could be interpreted differently in different contexts. For example, accounting professionals in both countries interpret the term "probable" asymmetrically in the context of asset recognition and liability recognition;

(c) some terms of likelihood are not interpreted differently from each other, for example "probable" and "likely"[4], indicating that terms which are seen to have similar meanings could be grouped together;

(d) some terms of likelihood tend to have different levels of communication efficiency which is defined as a degree of consensus in the interpretation of each term among individuals. For example, "virtually certain" appears to have the highest communication efficiency while "possible" seems to have the lowest communication efficiency in both countries;

(e) some terms of likelihood are interpreted differently in different languages by Korean accounting professionals indicating that there may be a translation issue that should be addressed[5]; and

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[2] KASB and AASB staff identified approximately 35 different terms of likelihood used in IFRS

[3] This is indicative of the potential for inconsistent financial reporting outcomes; however, further research using specific examples would be necessary to help establish the extent to which financial reporting outcomes might be different.

[4] "Probable" and "likely" are translated into a single Korean expression "가능성이 높다", indicating that these two terms are already being interpreted as having the same probability level in the process of translation.

[5] As noted in some of the feedback (refer Appendix E) kindly provided by national standard setters on a draft of the report, effective translation would be greatly assisted by having the IFRS written in plain English to the extent feasible.

(f) some terms of likelihood cannot be distinctly translated into Korean. For example, “probable” and “likely” are translated into a single Korean expression “가능성이 높다”, and the terms “virtually certain” and “reasonably certain” are both translated into a single Korean term “가능성이 거의 확실한”.

12 The key recommendations to the IASB from the research are:

(a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;

(b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a limited set of applicable terms. Unless the intended levels of likelihood are significantly different from those identified in the limited set of terms, standard setters should draw terms from the set;

(c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;

(d) the IASB’s re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of ‘conservatism’ when applying IFRS; and

(e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

1. Introduction

1 Due to globalization, there is a growing consensus that international accounting convergence is imperative to enhance comparability of financial statements across countries. To date, 119 jurisdictions adopt or otherwise use International Financial Reporting Standards (IFRS) for all or most publicly accountable entities[6].

2 The primary goal of IFRS is to provide a single set of accounting standards that enables the comparability and quality of the financial reporting among companies globally to be enhanced. Application of IFRS is expected to be consistent across jurisdictions and financial reports should be comparable across countries.

3 However, having a common set of financial reporting requirements such as IFRS across jurisdictions may be a necessary, but not sufficient, condition to ensure global financial reporting comparability. International comparability of financial statements under IFRS can only be achieved if standards are interpreted and applied consistently across countries.

4 Accounting standards attempt to ensure similar transactions are reported in financial statements in similar way. However, the different accounting environments of various countries suggest that application of IFRS may differ across jurisdictions.

5 Prior research also shows that the interpretation and application of professional judgment in accounting is a function of various factors including cultural values, legal systems, professional training and education (e.g. Oliver, 1974; Chesley, 1986; Houghton, 1987; Houghton, 1988; Harrison and Tomassini, 1989; Amer et al., 1995; Gray and Vint, 1995; Zarzeski, 1996; Wingate, 1997; Schultz and Lopez, 2001; Doupnik and Richter, 2003; Doupnik and Richter 2004; Doupnik and Riccio, 2006; Tsakumis, 2007).

6 One of the difficulties in interpreting accounting standards is the lack of consensus on the meaning of terms of likelihood[7] used in IFRS which require considerable judgment. Terms of likelihood, such as “remote”, “likely”, “virtually certain” and “probable”, are important to be included in IFRS because they allow auditors and preparers to denote levels of probability in prescribing recognition, measurement or disclosure of events and transactions in financial reports (Laswad and Mak, 1997).

7 As the emphasis on judgment increases, consistent interpretation of terms of likelihood becomes increasingly important in determining the comparability of financial statements across jurisdictions. Moreover, inconsistent interpretation of such terms could lead to less useful information for decision making by potential users of financial statements such as investors, creditors, government and policy makers. Accordingly, it seems important to investigate whether terms of likelihood in IFRS are interpreted consistently across jurisdictions.

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[6] http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx

[7] There are approximately at least 35 terms of likelihood used in IFRS.

8 This paper provides findings from joint research project conducted by the KASB and AASB about how terms of likelihood used in IFRS are interpreted by auditors and preparers of financial reports in Korea and Australia. Given that Korea and Australia adopted IFRS in 2011 and 2005 respectively and both have distinct cultural and legal systems as well as different languages, Korea and Australia provide ideal settings for the purpose of this research.

9 The objectives of this research are:

(a) to investigate whether there are differences in interpreting terms of likelihood by auditors and preparers between Korea and Australia;

(b) to identify findings that highlight possible improvements that could be made to the standard-setting process to help achieve the objective of global standards; and

(c) to investigate whether translation of terms of likelihood from English to Korean are consistent with the intended expressions.

10 This report proceeds as follows. Section 2 describes relevant prior studies and background of IFRS adoption in Korea and Australia. Section 3 describes the research design of this research project including samples and demographics of respondents to the survey. Section 4 presents results from analysis of survey data. Section 5 outlines the conclusions and key recommendations to the IASB.

2. Background

2.1 Prior studies

11 Psychology literature shows that in a general population there is a lack of symmetry in assigning probabilities on terms of likelihood (Budescu and Wallsten, 1985). For example, research concludes that probabilities assigned to mirror-image pairs such as "probable" and "improbable" do not sum to 100% (Lichstenstein and Newman, 1967).

12 A considerable number of studies provide evidence that there are disagreements regarding the interpretation of probability expressions, i.e. terms of likelihood. For example, Laswad and Mak (1997) find that there is a lack of consensus among standard setters in New Zealand about the interpretation of terms of likelihood. Similar results were found in studies using groups such as accountants, auditors and students from different countries (Davidson 1991; Amer et al, 1995).

13 Some academic research reports that the application of professional judgment in accounting is a function of cultural values (Doupnik and Richter, 2003; Doupnik and Ritcher, 2004; Doupnik and Riccio, 2006; Tsakumis, 2007). Cultural values are subject to the shared experience of the individuals in a community or nation. Research suggests that cultural values can influence the cognitive processes involved in probability assessment (Phillips and Wright, 1977), and terms of likelihood could not be consistently interpreted and applied across nations as there are cultural differences between them.

14 Gray (1988) suggests there are relationships between cultural characteristics and the development of accounting systems, the regulation of the accounting profession and attitudes towards financial management and disclosure. Based on the cross-cultural work of Hofstede (1980), the framework proposed by Gray (1988) implies that cultural differences could cause accountants from different countries to interpret and apply a same set of accounting standards differently, and thus impair the comparability of financial statements across jurisdictions.

15 Following Gray's (1988) theoretical framework, extensive research has examined the relationship between cultural values and disclosures provided in corporate financial reports (Gray and Vint, 1995; Zarzeski, 1996; Wingate, 1997; Jaggi and Low, 2000; Hope, 2003). Several studies examine the association between culture and measurement of assets and profits at the country level (Eddie, 1990; Salter and Niswander, 1995; Sudarwan and Fogarty, 1996). Prior research also finds that a country's legal system, major source of financing, level of uncertainty avoidance and a nation's culture play a significant part in influencing the interpretation and application of accounting standards (Schultz and Lopez 2001; Doupnik and Richter 2004).

2.2 Australia and Korea

2.2.1 Australia

16 At the Tenth International Congress of Accountants in Sydney in 1972, reducing the degree of variation in international accounting practices was considered to be an issue in urgent need of attention. It was decided in the Congress that the development of a set of International Accounting Standards (IAS) was critical. In the following year, on 29 June 1973, the IASC was formed. The IASC was a private organization and its members included accounting bodies from 14 counties, an association of analysts and an association of financial executives. Australia[8] was among the founders of this Committee and has been involved in efforts to harmonize accounting standards globally since that time.

17 In 1984, the Australian Government established the Accounting Standards Review Board (ASRB). The ASRB was granted power over the approval of accounting standards by virtue of the *Companies and Securities Legislation (Miscellaneous Amendments) Act 1983.* In 1991, the ARSB was renamed the Australian Accounting Standards Board (AASB).

18 In 1994, the AASB issued a Policy Discussion Paper "Towards International Comparability of Financial Reporting" which discussed the intent and objectives of harmonizing accounting standards internationally.

19 The push for using international standards gained momentum with the Australian Government initiating a comprehensive program of corporate law reform known as the *Corporate Law Economic Reform Program* (*CLERP 1*) in 1997. *CLERP Paper No. 1 Accounting Standards: Building International Opportunities for Australian Business*, issued in April 1997 proposed that the accounting standard-setting process in Australia including the recommendation to adopt high quality, internationally accepted accounting standards. It was mentioned in the paper that Australian Accounting Standards were 'out of step' with the rest of the world, thereby costing Australian business more in terms of attracting foreign investment funds into Australian debt and equity markets.

20 The AASB commenced a program to harmonize Australian standards with international accounting standards issued by the IASC.

21 In 2002, the importance of lowering the cost of capital argument was reiterated in *CLERP 9 Corporate disclosure: Strengthening the financial reporting framework* issued by the Australian Government as the basis for recommending an adoption of high quality internationally accepted accounting standards. Also in 2002, the Financial Reporting Council (FRC) which was established to assume the role of overseeing the AASB, issued a directive to the AASB about adopting IFRS as issued by the IASB with effect from 1 January 2005, in line with the European Union's (EU) program to mandate IFRS for listed companies within the EU from the same date.

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[8] At the time the IASC was formed, the member accounting bodies representing Australia were the Institute of Chartered Accountants in Australia and the Australian Society of Accountants.

22 A key feature of Australia's adoption of IFRS was that the AASB continued to apply its transaction-neutral policy to standard-setting post adoption whereby the same transaction would be accounted in the same manner irrespective of the entity's sector orientation, unless there is a compelling reason to have a different requirement for not-for-profit entities. Although IFRS are prepared by the IASB with only for-profit entities in mind, there are only a few modifications from IFRS relating to not-for-profit entities in Australian standards. The requirements for Australian for-profit entities are IFRS word-for-word and the few modifications for not-for-profit entities are in separate standards or are clearly identified with the prefix 'Aus'.

23 As Australian standards incorporate IFRS requirements word-for-word, Australian accountants using the standards will be familiar with terms of likelihood used in IFRS.

2.2.2 Korea

24 Following the East Asian financial crisis in 1997, in October 1998, Korea agreed with the International Bank for Reconstruction and Development (IBRD) to establish an independent private-sector accounting standard setting organization. As a result, the Korea Accounting Institute (KAI), within which the KASB is nested, was established in September 1999, and the Financial Supervisory Commission (currently Financial Services Commission, FSC) delegated the duty of setting and amending accounting standards to the KASB in July 2000[9].

25 In February 2006, the Korean government organized a Task Force to consider IFRS adoption. A report titled "*Roadmap toward IFRS adoption in Korea*" (hereafter called *Roadmap*) was finalized and issued in March 2007. A significant announcement of IFRS adoption was made. According to the *Roadmap*, all listed companies and financial institutions, where the accounting transparency is in high demand in Korea, are required to adopt IFRS as the basis for financial reporting starting from 2011. With the exception of financial institutions, voluntary early adoption was allowed from 2009. Non-listed companies can elect to apply IFRS or Korean GAAP 'Accounting Standards for Non-Public Entities'.

26 Korea chose to adopt and implement IFRS fully without going through a phase-in or convergence process ('Big-Bang' approach).

27 Prior to the adoption of IFRS, all Korean entities applied a single set of accounting standards (one-tier, Korean GAAP). Unlike Australia which has been using principle based approach for standards, the Korean GAAP before IFRS adoption set out specific and detailed requirements on various transactions and events.

28 As English is not used widely in Korea, to ensure a smooth transition in IFRS adoption and to minimize compliance costs, translation is required. The KASB translated the entire set of IFRS into Korean word-by-word from English in accordance with the

[9] Please see "IFRS adoption and Implementation in Korea, and the Lessons Learned" published by Korea Accounting Standards Board, Financial Supervisory Service, 31 December 2012.

translation processes defined in the copyright agreement with the IFRS Foundation and exposed the translation to the public to receive feedback.

29 In November 2007, the translation of IFRS was finalised and named K-IFRS. After being submitted to the FSC for endorsement, K-IFRS was officially published in December 2007.

30 As the IASB continuously improves and develops IFRS, the translation of IFRS is an on-going process. The KASB develops or amends the corresponding K-IFRS to be in line with the IFRS developments or amendments.

3. Research Design

3.1 Terms of likelihood

31 KASB and AASB staff identified approximately 35 different terms of likelihood used in IFRS[10]; 13 of which were selected and examined in this research[11]. The selected terms of likelihood cover the full range of probability levels presumably from the highest ("virtually certain") to the lowest ("remote"). The 13 chosen terms are presented in Table 1[12].

TABLE 1 Terms of likelihood

In English	In Korean
Virtually certain	가능성이 거의 확실한
Substantially all	대부분
Highly probable	가능성이 매우 높은
Reasonably certain	가능성이 거의 확실한
Reasonably assured	합리적인 확신
Probable	가능성이 높은
Likely	가능성이 높은
Reasonably possible	합리적으로 발생 가능한
Possible	가능성이 잠재적인
Unlikely	가능성이 낮은
Highly unlikely	가능성이 매우 낮은
Extremely unlikely	가능성이 매우 낮은
Remote	가능성이 아주 낮은, 희박한

Notes: The terms of likelihood are presented in the survey questionnaire in random order to remove any order effects.

32 Table 1 also indicates that there exist difficulties in translating certain English expressions into Korean. For example, both "probable" and "likely" are translated into a single Korean term "가능성이 높은"; 'virtually certain' and 'reasonably certain' are translated into "가능성이 거의 확실한"; and 'highly unlikely' and 'extremely unlikely' are translated into "가능성이 매우 낮은".

[10] The list of identified 35 terms of likelihood in IFRS is provided in Appendix A.

[11] The terms examined in this study are selected based on general and comprehensive criteria including, but not limited to, the frequency of appearance in IFRS and coverage of probability levels. In addition, some cases where a multiple terms translate into a single expression were selected to examine potential translation issues.

[12] Terms of likelihood in IFRS are used to establish the threshold for recognition or disclosure of various accounting elements. The selected terms in this study also encompass some expressions which are used in contexts where they refer to the proportion of something, for example, "substantially all".

33 There is also a case of a level of probability that is represented by one term in the original English that can be represented by multiple Korean expressions. For instance, the term "remote" is translated as both "가능성이 아주 낮다" and "희박하다" in Korean. This absence of direct equivalence of expressions between the two languages might suggest a lack of equivalence between the underlying concepts of the two languages.

3.2 Survey instrument

34 We employed a survey instrument to obtain Korean and Australian accounting professionals' interpretations of terms of likelihood in IFRS. The questionnaire was piloted on KASB and AASB staff as well as accounting professionals in practice, none of whom participated in the actual survey, and adjustments were made to enhance understandability and readability[13] prior to it being available online.

35 The survey instrument consists of four sections:

(a) Section 1 explores respondents' interpretation of terms of likelihood in isolation. 13 terms of likelihood used in IFRS are addressed. Respondents are required, in their professional opinion, to indicate the range of probability that best corresponds to each term of likelihood in percentage (%) terms on a scale of 0% to 100%;

(b) Section 2 seeks to capture demographic information about the respondents such as age group, gender, position in firms, years of experience, risk perception and familiarity with IFRS;

(c) Section 3 explores respondents' interpretation of 13 terms of likelihood within particular contexts. 16 paragraphs of IFRS that contain terms of likelihood are presented[14]. Respondents are required to indicate the point of probability that best corresponds to each term of likelihood used in paragraphs presented in percentage (%) terms on a scale of 0% to 100%; and,

(d) Section 4 seeks to capture information on: (i) whether respondents are confident with the judgments they made on the terms of likelihood in the survey; and (ii) qualitative comments from respondents.

36 Respondents are required to provide point estimates of terms of likelihood when not in context and range estimates of terms of likelihood when in context of IFRS[15]. To assess terms of likelihood without a context is inevitably an artificial task, as in practice a context will always exist.

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[13] We endeavoured to ensure that the tasks in the survey instrument took more than 15 minutes to complete.

[14] In addition to 13 relevant passages containing each selected term of likelihood, one extra paragraph for "probable" and "remote" respectively, and one paragraph for "no longer probable" were selected for our test. Priority in selecting relevant passages to the terms is given to paragraphs in bold type.

[15] While point estimates are useful indicators of a respondent's typical interpretation of terms, a number of prior studies require respondents to provide range estimates as well (Laswad and Mak 1997; Amer et al. 1995).

37 The excerpts from IFRS cover a wide variety of accounting contexts in which terms of likelihood are used to:

(a) recognize (or derecognize) assets, liabilities and increases in income (revenues) or decreases in income (expenses), and

(b) disclose accounting information.

38 In Australia, the survey instrument was only available in English, whereas in Korea, one survey instrument was made available in English and another in Korean[16]. Both survey instruments in English and Korea contain the same content. The survey instrument was made available online[17].

3.3 Sample selection

39 Auditors and preparers of financial statements in Korea and Australia were invited to respond to the survey instrument[18]. Korean auditors and preparers were offered to choose to respond to either the English version or the Korean translation of the survey instrument[19].

40 In Australia, we asked each of the Big-4 AASB members and contacts among the mid-tier accounting firms to encourage their colleagues to complete the survey for the auditor group; and the Australian Securities Exchange contacted each listed entity and encouraged accounting professionals to complete the survey for the preparer group.

41 In Korea, the web-based survey link was posted to the KASB's website and auditors and preparers who subscribe to e-KASB were invited to participate in this survey. In addition, the KASB requested the Korean Institute of Certified Public Accountants for the auditor group and the Korea Listed Companies Association and KOSDAQ Listed Companies Association for the preparer group to send out the survey link to their members and encourage them to participate in the survey. Participants in the KASB education session were also asked to take part in the survey.

42 The survey was conducted from 1 September 2015 to 31 December 2015.

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[16] Survey responses to the questionnaire in English by Korean accounting professionals are obtained to examine whether they make differences in the interpretation of terms of likelihood in English and Korean.

[17] http://tillion.co.kr/survey/?pid=S99284256&grpid=TO&resid=0&vcidx=1

[18] In Korea, the target population of preparers group includes all listed companies and financial institutions as they are required to apply IFRS.

[19] Korean auditors and preparers who chose to respond to the English version were expected to be proficient in English.

3.4 Demographics of sample

43 We obtained survey responses[20] from 712 accounting professionals in Korea and Australia comprised of:

(a) 327 Korean auditors (including 144 Korean auditors who responded to the English version) and 177 Korean preparers (including 91 Korean preparers who responded to English version); and

(b) 88 Australian auditors and 120 Australian preparers.

44 In Table 2, a brief summary of the demographic details of the 712 respondents are presented[21]. We report age, gender, professional experience and professional position of respondents in each country. Most of respondents noted that they refer to IFRS in their professional practice and are familiar with IFRS. Accounting professionals in Korea and Australia also consider the understanding of terms of likelihood is important for the application of IFRS while some noted that they experience difficulties in making judgments on the terms of likelihood.

TABLE 2 Sample demographics

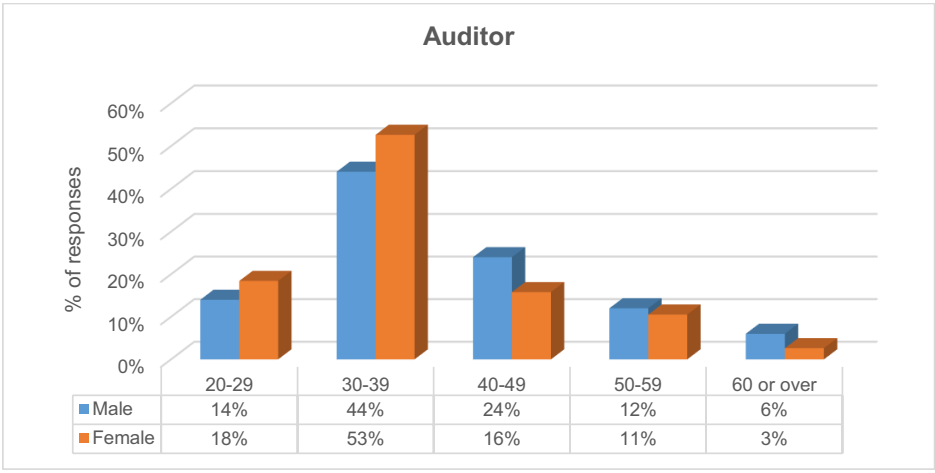
Item	Australia		Korea	
	Auditor	Preparer	Auditor	Preparer
Number of responses	88	120	327	177
Age				
20-29	14 (15.9%)	3 (2.5%)	9 (2.8%)	24 (13.6%)
30-39	42 (47.7%)	48 (40.0%)	157 (48.0%)	105 (59.3%)
40-49	18 (20.5%)	38 (31.7%)	121 (37.0%)	44 (24.9%)
50-59	10 (11.4%)	26 (21.7%)	30 (9.2%)	4 (2.2%)
60 or over	4 (4.5%)	5 (4.1%)	10 (3.0%)	0 (0.0%)
Gender				
Male	50 (56.8%)	85 (70.8%)	271 (82.9%)	132 (74.6%)
Female	38 (43.2%)	35 (29.2%)	56 (17.1%)	45 (25.4%)
Experience				
Less than 6 years	14 (15.9%)	6 (5.0%)	63 (19.3%)	75 (42.4%)
6-10 years	27 (30.7%)	17 (14.2%)	91 (27.8%)	55 (31.1%)
11-15 years	15 (17.0%)	37 (30.8%)	69 (21.1%)	27 (15.3%)
16-20 years	9 (10.2%)	18 (15.0%)	54 (16.5%)	14 (7.9%)
More than 20 years	23 (26.1%)	42 (35.0%)	50 (15.3%)	6 (3.4%)
Position				
Associate	2 (2.3%)	1 (0.8%)	9 (2.8%)	2 (1.1%)
Senior associate	7 (8.0%)	4 (3.3%)	73 (22.3%)	25 (14.1%)
Manager	14 (15.9%)	19 (15.8%)	84 (25.7%)	53 (29.9%)

[20] The invalid responses with an apparent lack of understanding or attention by respondents were removed from the data set and statistical tests were conducted on the reduced sample. Analysis of the data found that the potential outliers do not seem to generally change the results from the full reduced sample.

[21] No significant sample selection bias effects on the findings were detected; and respondent demographics do not appear to have significantly affected the responses.

Senior manager	17 (19.3%)	21 (17.5%)	75 (22.9%)	52 (29.4%)
Director	21 (23.9%)	5 (4.2%)	46 (14.1%)	32 (18.1%)
Partner	24 (27.3%)	0 (0.0%)	20 (6.0%)	12 (6.8%)
CFO	1 (1.1%)	47 (39.2%)	10 (3.1%)	1 (0.6%)
Other	2 (2.2%)	23 (19.2%)	10 (3.1%)	0 (0.0%)
Reference to IFRS				
Always	70 (79.5%)	46 (38.3%)	119 (36.4%)	55 (31.1%)
Usually	13 (14.8%)	40 (33.3%)	141 (43.1%)	71 (40.1%)
Sometimes	5 (5.7%)	31 (25.8%)	59 (18.0%)	44 (24.9%)
Seldom	0 (0.0%)	3 (2.6%)	7 (2.1%)	6 (3.4%)
Never	0 (0.0%)	0 (0.0%)	1 (0.4%)	1 (0.5%)
Familiarity with IFRS				
Extremely familiar	48 (54.5%)	49 (40.8%)	66 (20.2%)	25 (14.1%)
Moderately familiar	33 (37.5%)	50 (41.7%)	134 (41.0%)	60 (33.9%)
Somewhat familiar	6 (6.8%)	19 (15.8%)	92 (28.1%)	59 (33.3%)
Slightly familiar	1 (1.2%)	2 (1.7%)	30 (9.2%)	28 (15.8%)
Not at all familiar	0 (0.0%)	0 (0.0%)	5 (1.5%)	5 (2.9%)
Importance of the terms				
Extremely important	44 (50.0%)	44 (36.7%)	108 (33.0%)	47 (26.6%)
Very important	40 (45.4%)	53 (44.2%)	133 (40.7%)	93 (52.5%)
Somewhat important	2 (2.3%)	20 (16.7%)	48 (14.7%)	27 (15.3%)
Slightly important	2 (2.3%)	3 (2.4%)	35 (10.7%)	9 (5.1%)
Not at all important	0 (0.0%)	0 (0.0%)	3 (0.9%)	1 (0.5%)
Difficulties with the terms				
Very easy	16 (18.2%)	29 (24.2%)	18 (5.4%)	15 (8.5%)
Easy	53 (60.2%)	64 (53.3%)	78 (23.2%)	38 (21.5%)
Neutral	13 (14.8%)	23 (19.2%)	109 (32.4%)	51 (28.8%)
Difficult	6 (6.8%)	4 (3.3%)	102 (30.4%)	54 (30.5%)
Very difficult	0 (0.0%)	0 (0.0%)	29 (8.6%)	19 (10.7%)

Figure 1 Age and gender of the respondents in Australia



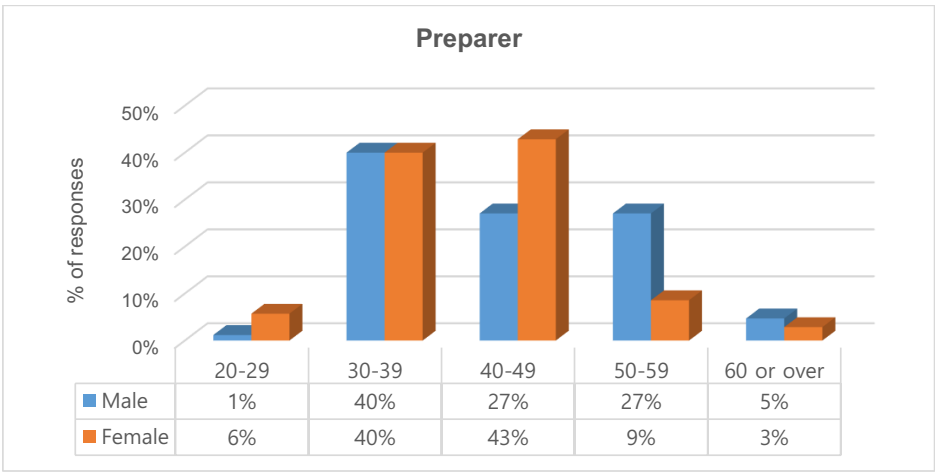
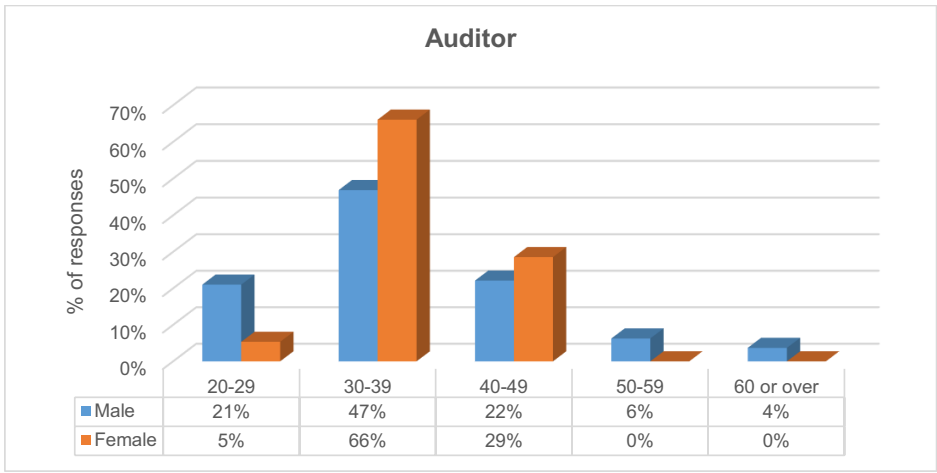
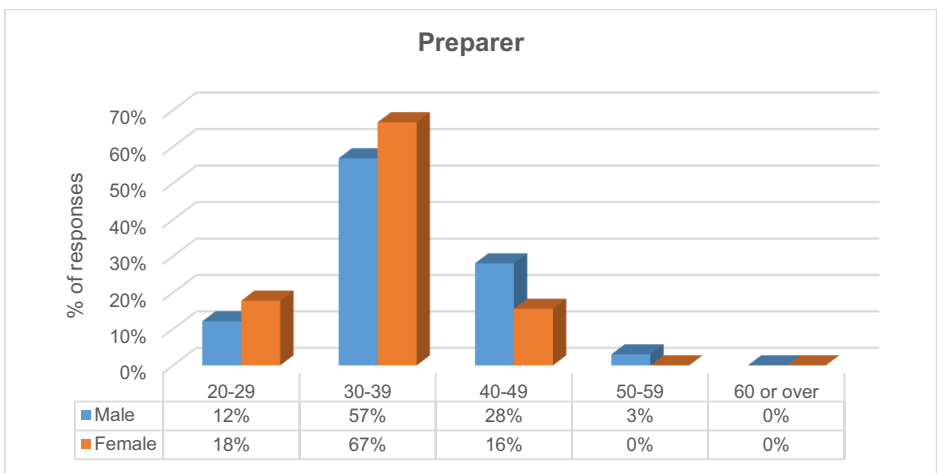


Figure 2 Age and gender of the respondents in Korea

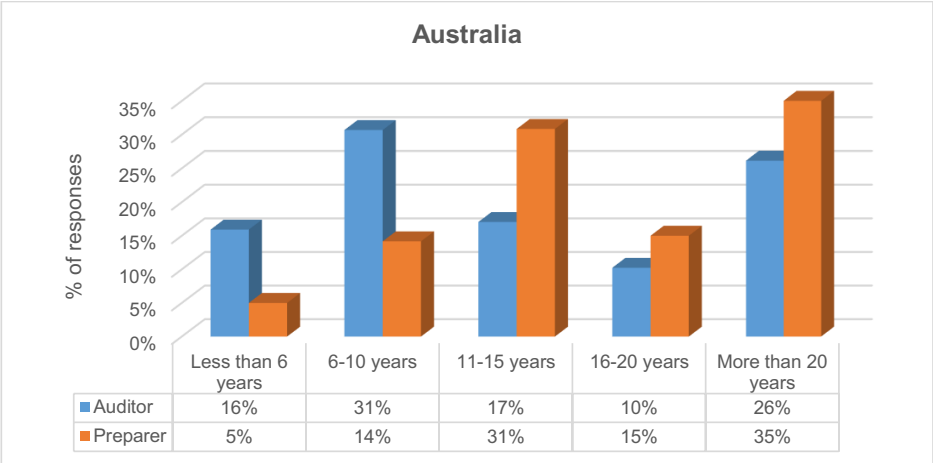


	20-29	30-39	40-49	50-59	60 or over
Male	21%	47%	22%	6%	4%
Female	5%	66%	29%	0%	0%



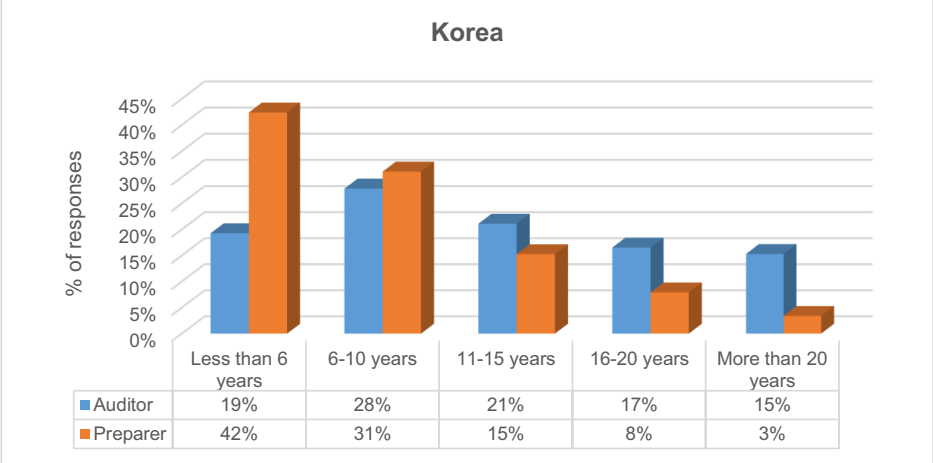
	20-29	30-39	40-49	50-59	60 or over
Male	12%	57%	28%	3%	0%
Female	18%	67%	16%	0%	0%

Figure 3 Professional experience of the respondents in Australia



	Less than 6 years	6-10 years	11-15 years	16-20 years	More than 20 years
Auditor	16%	31%	17%	10%	26%
Preparer	5%	14%	31%	15%	35%

Figure 4 Professional experience of the respondents in Korea



	Less than 6 years	6-10 years	11-15 years	16-20 years	More than 20 years
Auditor	19%	28%	21%	17%	15%
Preparer	42%	31%	15%	8%	3%

Figure 5 Professional position of the respondents in Australia

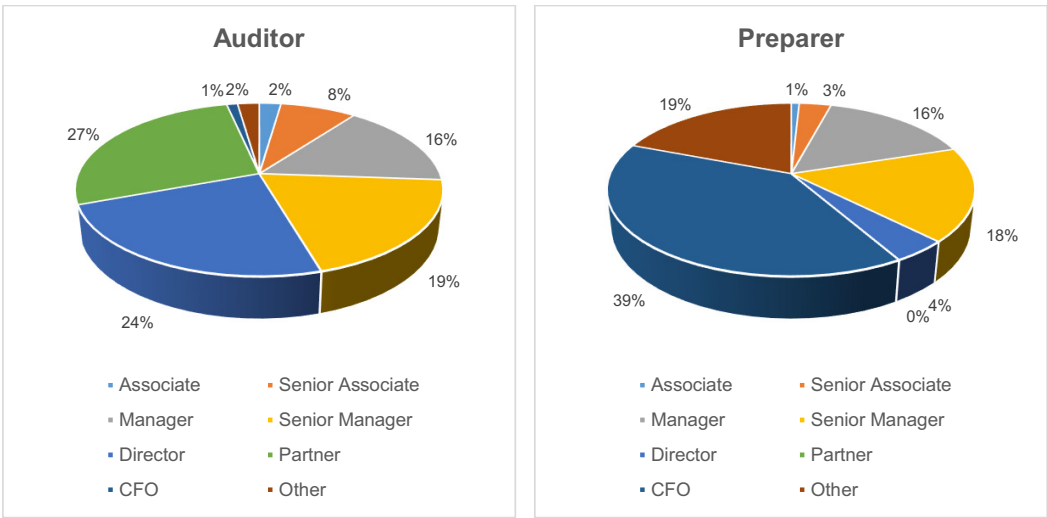


Figure 6 Professional position of the respondents in Korea

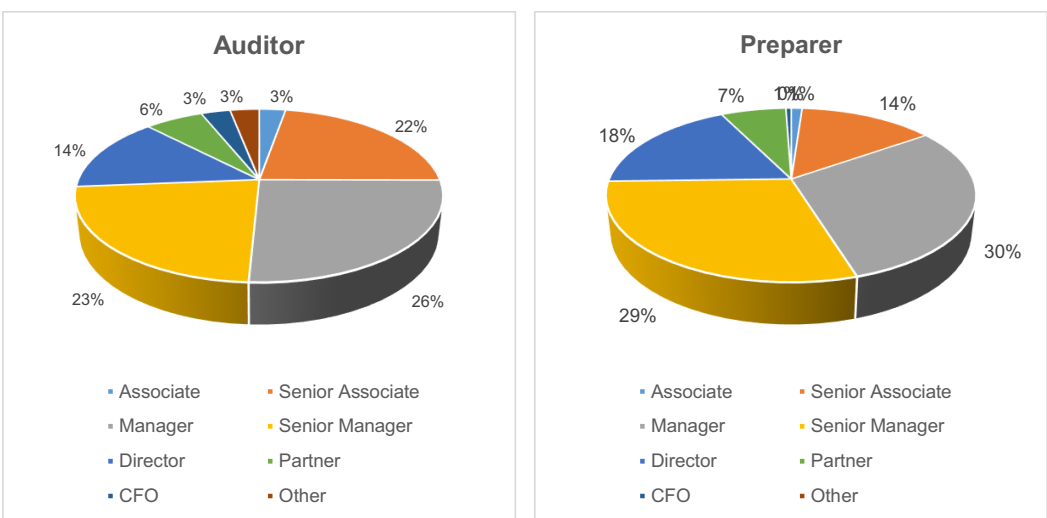


Figure 7 Reference to IFRS in Australia

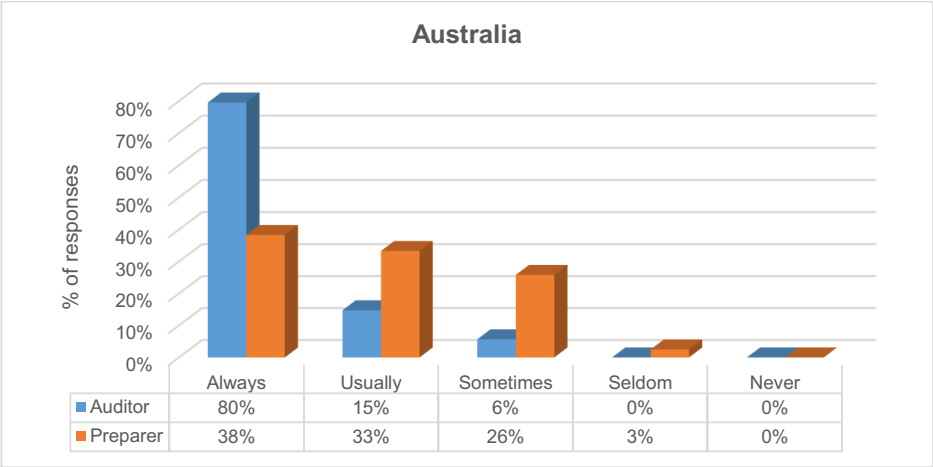


Figure 8 Reference to IFRS in Korea

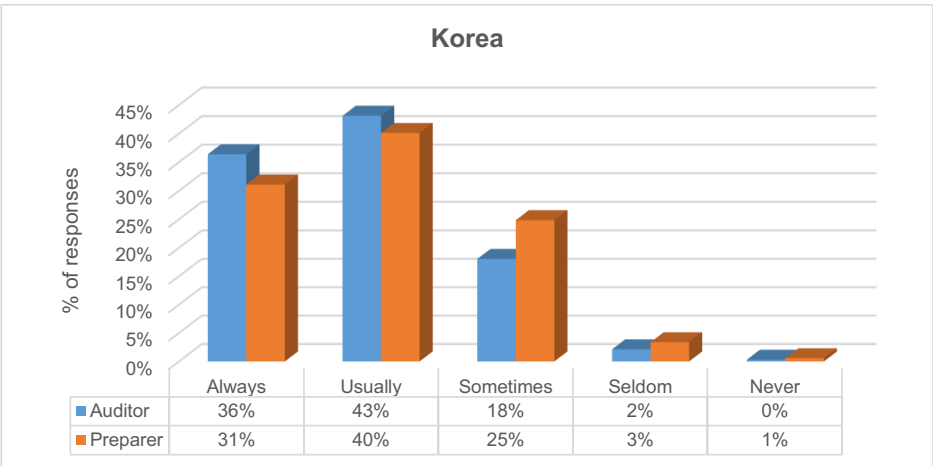
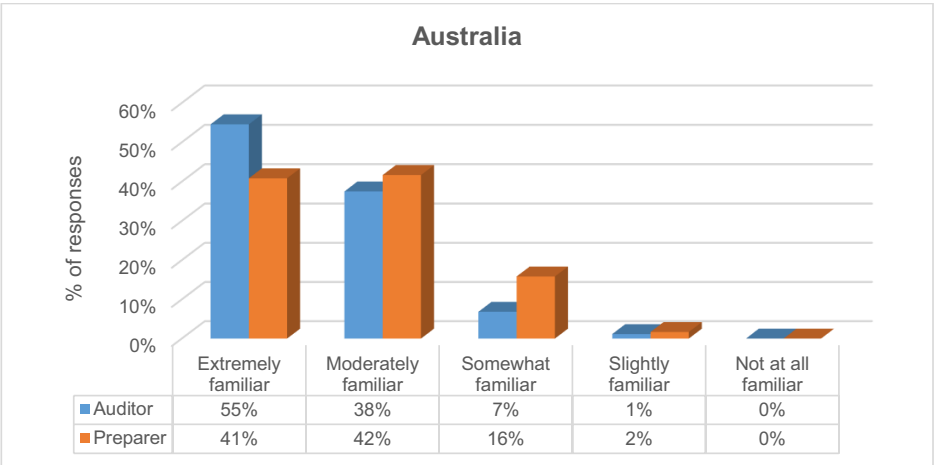
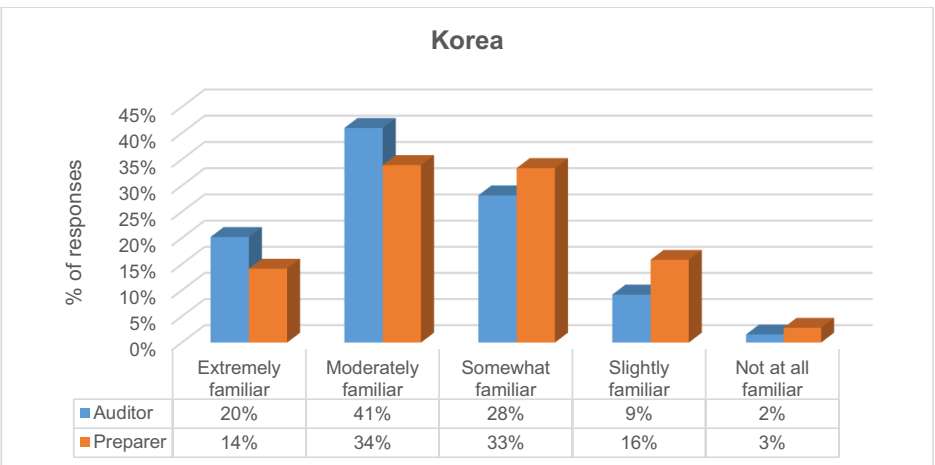


Figure 9 Familiarity with IFRS in Australia



	Extremely familiar	Moderately familiar	Somewhat familiar	Slightly familiar	Not at all familiar
Auditor	55%	38%	7%	1%	0%
Preparer	41%	42%	16%	2%	0%

Figure 10 Familiarity with IFRS in Korea



	Extremely familiar	Moderately familiar	Somewhat familiar	Slightly familiar	Not at all familiar
Auditor	20%	41%	28%	9%	2%
Preparer	14%	34%	33%	16%	3%

Figure 11 Views on importance of terms of likelihood in Australia

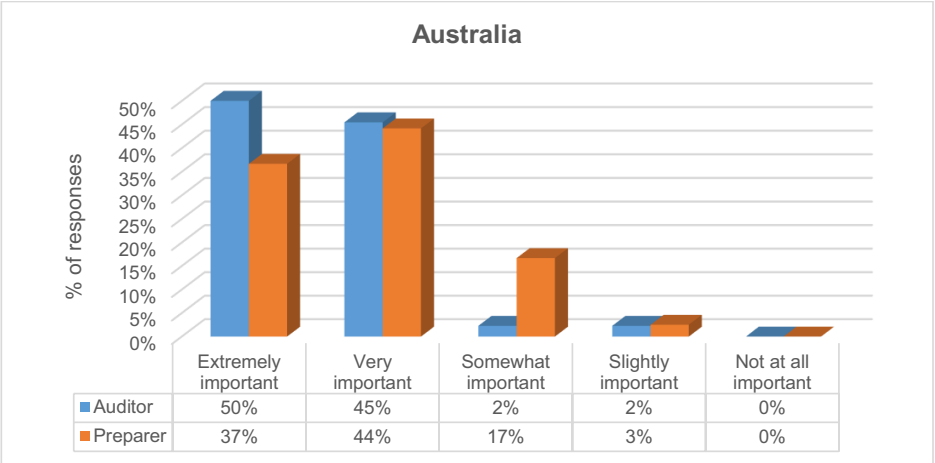


Figure 12 Views on importance of terms of likelihood in Korea

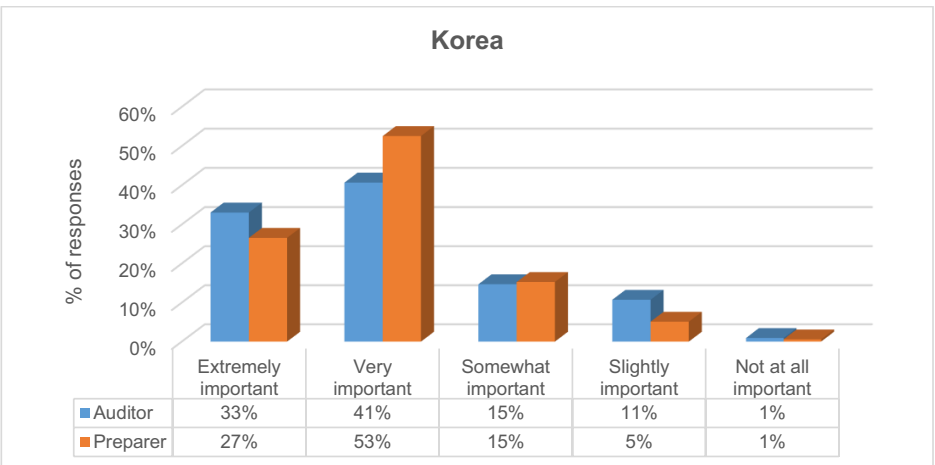
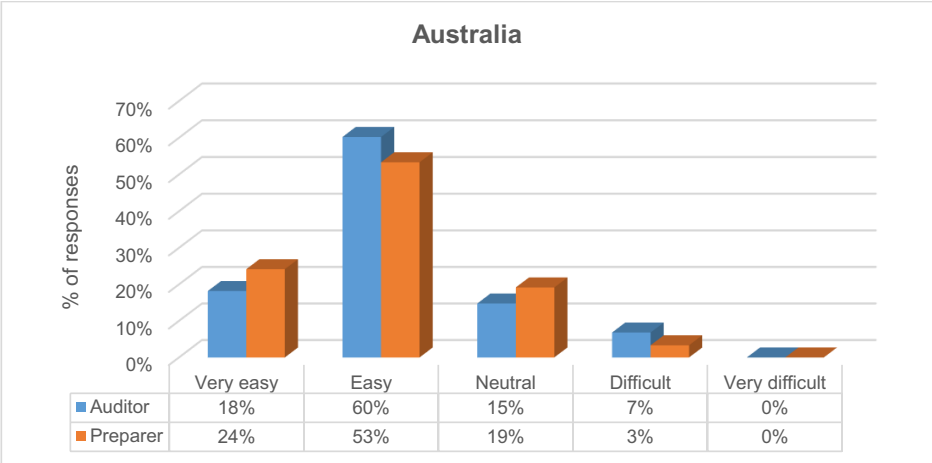
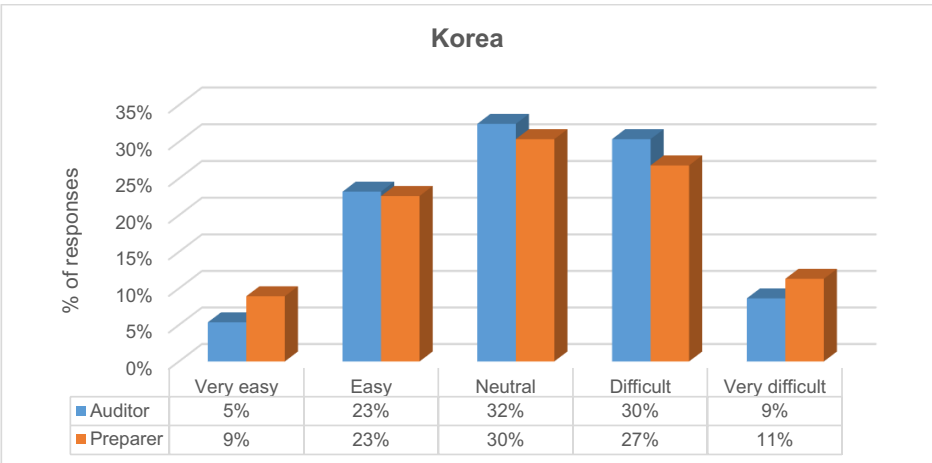


Figure 13 Difficulties in interpreting terms of likelihood in Australia



	Very easy	Easy	Neutral	Difficult	Very difficult
Auditor	18%	60%	15%	7%	0%
Preparer	24%	53%	19%	3%	0%

Figure 14 Difficulties in interpreting terms of likelihood in Korea



	Very easy	Easy	Neutral	Difficult	Very difficult
Auditor	5%	23%	32%	30%	9%
Preparer	9%	23%	30%	27%	11%

4. Findings

45 This section provides findings from the analysis of survey data[22,23]. Section 4.1 presents findings on the extent of differences in the interpretation of terms of likelihood between Korean and Australian accounting professionals. Section 4.2 provides results on the interpretation of terms of likelihood in different contexts (i.e. in the context of asset and liability recognition). Section 4.3 shows analysis on whether terms of likelihood with similar meanings could be categorized into groups. Section 4.4 describes communication efficiency of terms which is defined as a degree of consensus in the interpretation of each term among individuals. Section 4.5 compares the interpretation of 'probable' and 'no longer probable'. Section 4.6 provides a brief discussion of translation issues in terms of likelihood. Section 4.7 summarizes narrative responses from accounting professionals in Korea and Australia. Section 4.8 discusses limitations of this research and suggestions for future research.

4.1 Interpretation of terms of likelihood in Korea and Australia

4.1.1 Perceived hierarchy of terms of likelihood

TABLE 3 Perceived hierarchy of terms of likelihood

Terms of likelihood	Australia	Korea
Virtually certain	1	2
Substantially all	2	4
Highly probable	3	3
Reasonably certain	4	1
Reasonably assured	5	5
Probable	7	6
Likely	6	8
Reasonably possible	8	7
Possible	9	9
Unlikely	10	11
Highly unlikely	11	10
Extremely unlikely	12	12
Remote	13	13

46 Table 3 presents the perceived hierarchy of terms of likelihood by Korean and Australian accounting professionals. The shaded area shows that Korean and Australian accounting professionals assign different rankings on some terms of likelihood. Specifically, among 13 terms of likelihood, 8 terms are ranked at different levels between Korean and Australian accounting professionals.

[22] In this research, we mainly compare the Australian responses to English version and the Korean responses to the Korean version to examine whether terms of likelihood are consistently interpreted or not between Australian and Korean accounting professionals, as Korean companies are required to prepare financial statements in accordance with the Korean translation of IFRS.

[23] The analysis is based on the responses to questions in IFRS context, unless indicated otherwise.

47 For example, "reasonably certain" is ranked 4th among 13 terms of likelihood by Australian accounting professionals; while Korean accounting professionals assigned 1st on the term. Moreover, in the case of "highly probable", even though it is ranked at 3rd in both in Australia and Korea, accounting professionals in each country interpret this term with different numerical probabilities.

4.1.2 Numerical probability of terms of likelihood

TABLE 4 Interpretation of terms of likelihood - in IFRS context

Terms of likelihood	Australia		Korea	
	Mean	Median	Mean	Median
Virtually certain	92.1	95.0	89.6	90.0
Substantially all	90.3	90.0	84.6	90.0
Highly probable	82.9	85.0	86.3	90.0
Reasonably certain	80.6	80.0	89.8	90.0
Reasonably assured	75.8	75.0	79.2	80.0
Probable	62.0	60.0	71.3	75.0
Likely	64.1	62.5	57.9	60.0
Reasonably possible	57.2	60.0	65.2	70.0
Possible	43.5	50.0	39.7	40.0
Unlikely	28.2	25.0	12.3	5.0
Highly unlikely	24.2	10.0	14.8	10.0
Extremely unlikely	12.0	5.0	11.6	10.0
Remote	9.0	5.0	9.7	5.0

Notes:

(a) The non-tabulated results indicate statistically significant mean differences in ten of the thirteen terms of likelihood at the 0.01 level; one ("possible") at the 0.05 level. The difference found in the term "extremely unlikely" and "remote" were statistically insignificant.

(b) The results from "probable" and "remote" in the context of IAS 38 and IAS 16 respectively are presented in this table.

48 An unpaired t-test is used to determine whether a significant difference exists in the interpretation of terms of likelihood between Australian and Korean accounting professionals[24]. Table 4, Figure 15 and Figure 16 highlight that significant differences generally exist in the interpretation of terms of likelihood in IFRS context by Australian and Korean accounting professionals.

49 For example, 11 terms out of 13 selected terms, except "extremely unlikely" and "remote", show significant differences in their numerical probabilities by Australian and Korean accounting professionals. "Probable", "reasonably possible", "unlikely" and "highly unlikely" are interpreted with greater than approximately 10% differences in numerical probabilities.

[24] The reference to significance in this research mainly relates to statistical significance. As the criteria to estimate economic significance may be subjective, we do not provide any judgments in terms of economic significance.

Figure 15 Interpretation of terms of likelihood – in IFRS context

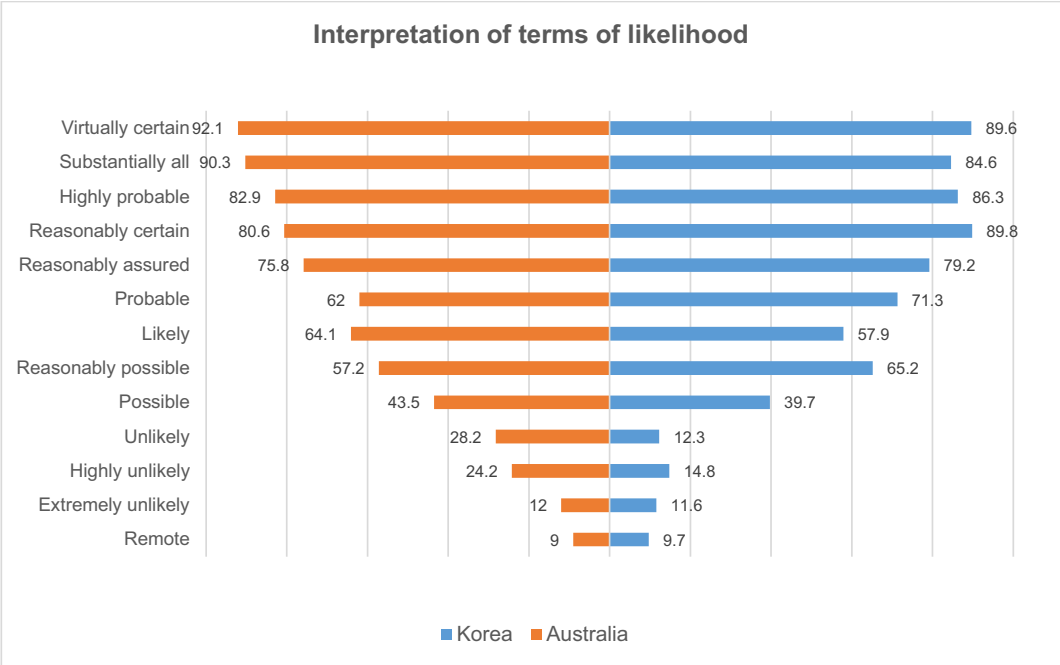
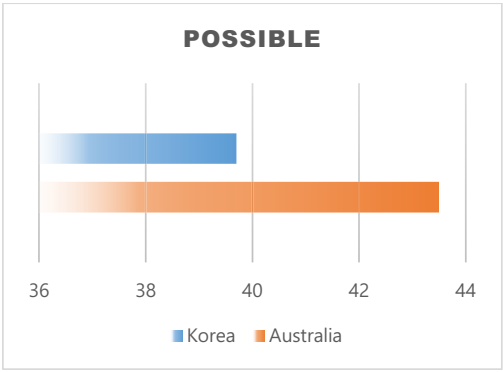
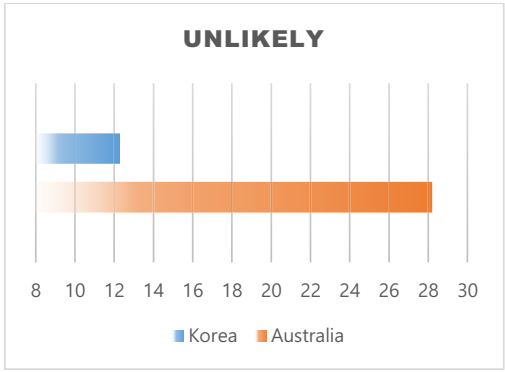
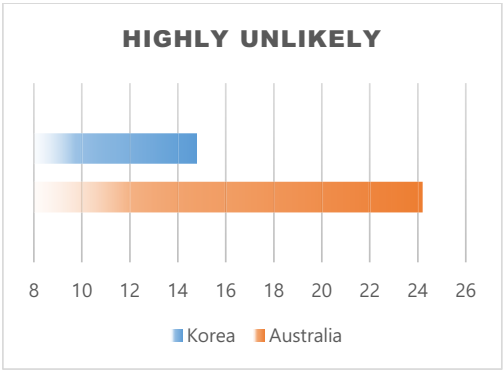
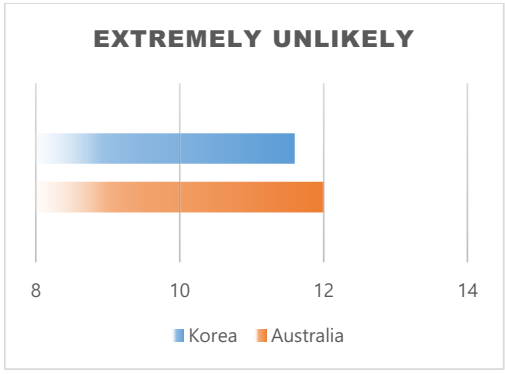


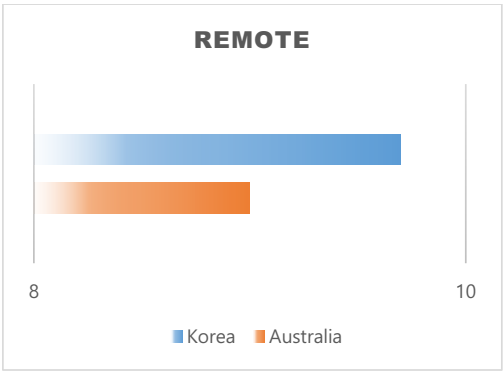
Figure 16 Interpretation of terms of likelihood by Australian and Korean accounting professionals


POSSIBLE
36
38
40
42
44
Korea
Australia


UNLIKELY
8
10
12
14
16
18
20
22
24
26
28
30
Korea
Australia


HIGHLY UNLIKELY
8
10
12
14
16
18
20
22
24
26
Korea
Australia


EXTREMELY UNLIKELY
8
10
12
14
Korea
Australia


REMOTE
8
10
Korea
Australia

4.1.3 Range estimate of terms of likelihood

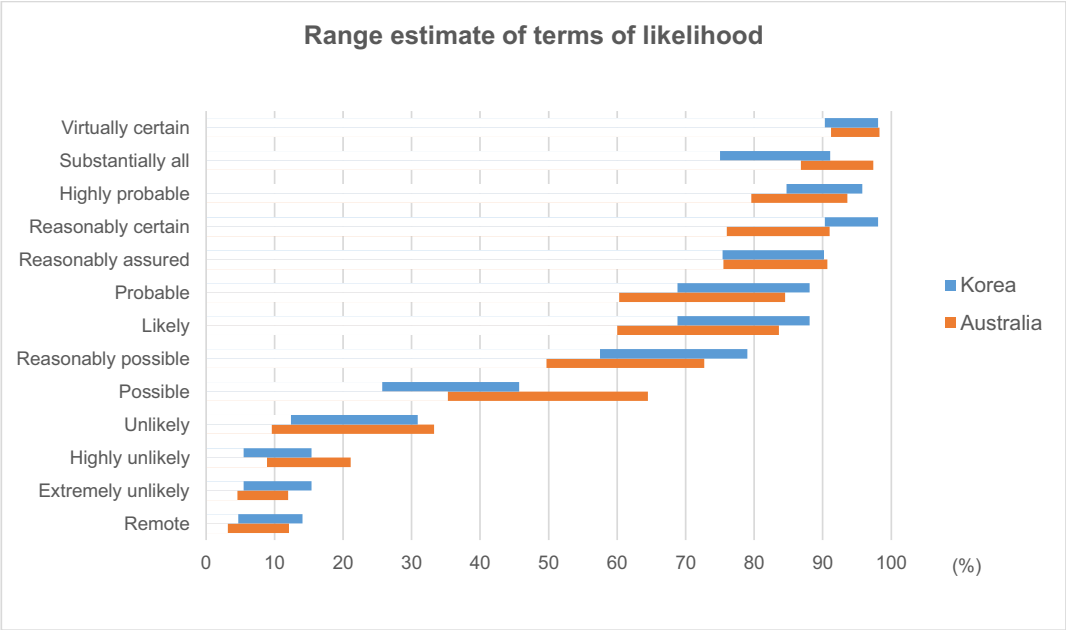
TABLE 5 Range estimate of terms of likelihood - in isolation of IFRS context

Terms of likelihood	Australia		Korea	
	Minimum	Maximum	Minimum	Maximum
Virtually certain	91.2	98.3	90.3	98.1
Substantially all	86.8	97.4	75.0	91.1
Highly probable	79.6	93.6	84.7	95.8
Reasonably certain	76.0	91.0	90.3	98.1
Reasonably assured	75.5	90.7	75.4	90.2
Probable	60.3	84.5	68.8	88.1
Likely	60.0	83.6	68.8	88.1
Reasonably possible	49.7	72.7	57.5	79.0
Possible	35.3	64.5	25.7	45.7
Unlikely	9.6	33.3	12.4	30.9
Highly unlikely	8.9	21.1	5.5	15.4
Extremely unlikely	4.6	12.0	5.5	15.4
Remote	3.2	12.1	4.7	14.1

Notes: Minimum and maximum of terms of likelihood presented above are mean value.

50 Table 5 presents range of numerical probability for each term of likelihood used in the analysis which is interpreted by Australian and Korean accounting professionals. Some terms seem to have considerable overlap between their numerical ranges of terms. Australian accounting professionals tend to have wider range on the interpretation of terms of likelihood compared with Korean accounting professionals.

Figure 17 Range of terms of likelihood by Korean and Australian accounting professionals



4.1.4 Probability of point estimate falling into range estimate

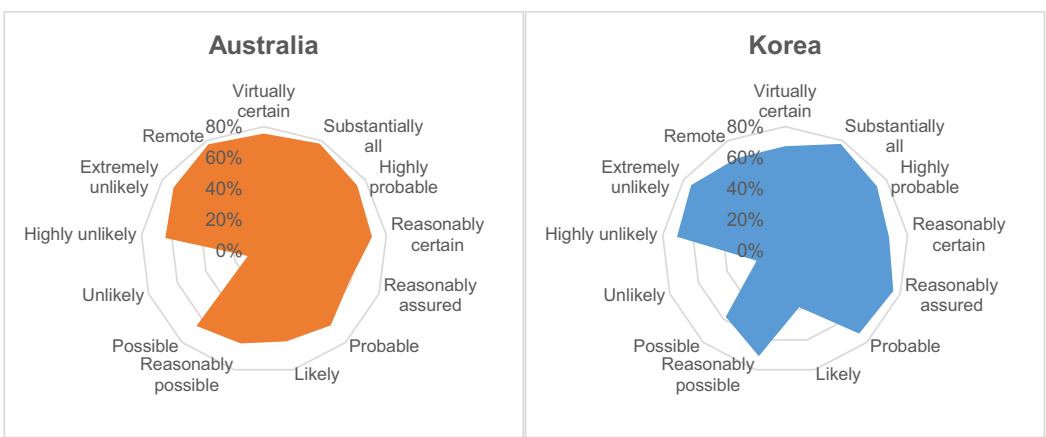
TABLE 6 Probability of point estimate falling into range estimate

Terms of likelihood	Australia		Korea	
	Mean	Median	Mean	Median
Virtually certain	75.5%	100.0%	67.3%	100.0%
Substantially all	77.9%	100.0%	77.7%	100.0%
Highly probable	73.6%	100.0%	72.5%	100.0%
Reasonably certain	70.7%	100.0%	68.0%	100.0%
Reasonably assured	59.1%	100.0%	75.1%	100.0%
Probable	65.4%	100.0%	72.5%	100.0%
Likely	61.1%	100.0%	38.3%	0.0%
Reasonably possible	62.5%	100.0%	71.0%	100.0%
Possible	65.9%	100.0%	58.0%	100.0%
Unlikely	11.1%	0.0%	19.7%	0.0%
Highly unlikely	64.4%	100.0%	70.6%	100.0%
Extremely unlikely	71.2%	100.0%	74.0%	100.0%
Remote	77.4%	100.0%	67.3%	100.0%

51 We estimate the probability of point estimate (responses to terms of likelihood in IFRS context) falling into range estimate (responses to terms of likelihood in isolation of IFRS context). This is to examine how the interpretation of terms may change when used in context. For example, if a respondent responds to "likely" in 60~80% range estimate and still has the point estimate of "likely" in context within the range, we assign 1 and 0 otherwise. The ratio presented in Table 6 shows the proportion of respondents who are assigned with 1. Accordingly, terms with lower ratio indicate that the interpretation may vary when used in context and not in context.

52 "Substantially all" shows the highest ratio among 13 terms of likelihood while "unlikely" has the lowest ratio in both countries, indicating that the interpretation of "unlikely" in context may be considerably different from when interpreted without context.

Figure 18 Probability of point estimate falling into range estimate by Korean and Australian accounting professionals



4.1.5 Effect of translation on the interpretation of terms of likelihood

TABLE 7 Effect of translation on the interpretation of terms of likelihood

Terms of likelihood	Australia (English)	Korea (English)	Korea (Korean)
Virtually certain	92.1	86.5	89.6
Substantially all	90.3	88.9	84.6
Highly probable	82.9	80.7	86.3
Reasonably certain	80.6	82.0	89.8
Reasonably assured	75.8	80.4	79.2
Probable	62.0	60.8	71.3
Likely	64.1	58.3	57.9
Reasonably possible	57.2	67.5	65.2
Possible	43.5	55.3	39.7
Unlikely	28.2	25.2	12.3
Highly unlikely	24.2	22.2	14.8
Extremely unlikely	12.0	9.2	11.6
Remote	9.0	14.0	9.7

Notes:

(a) The non-tabulated results indicate statistically significant mean differences between Australia (English) and Korea (English) in 6 of the 13 terms of likelihood at the 0.01 level; one ("highly probable") at the 0.05 level; and two ("unlikely" and "extremely unlikely") at the 0.10 level. The difference found in the term "substantially all", "reasonably certain", "probable" and "highly unlikely" were statistically insignificant.

(b) The non-tabulated results indicate statistically significant mean differences between Korea (English) and Korea (Korean) in 10 of the thirteen terms of likelihood at the 0.01 level; and two ("reasonably possible" and "extremely unlikely") at the 0.10 level. The difference found in the term "reasonably assured" was statistically insignificant.

53 To explore the impact that translation has on the interpretation of terms of likelihood, the mean probabilities assigned to the terms are compared across three groups - Australian responses to the English version (Australian-English), Korean responses to the English version (Korean-English), and Korean responses to the Korean version (Korean-Korean).

54 Table 7 shows that in Korea, there exist significant differences in the mean probability assigned to the original English expression and its Korean translation exists for 12 terms out of 13 terms, indicating that the translation of terms may alter the interpretation of the original English expression. However, the Australian-English group and Korean-English group also interpret 9 terms out of 13 terms inconsistently. Accordingly, the findings may indicate the inconsistent interpretation of terms between two countries may not be predominantly driven by Korean translation of IFRS.

4.2 Interpretation of terms of likelihood in different contexts

TABLE 8 Interpretation of terms of likelihood in different contexts

Terms of likelihood		Context		Australia	Korea
English	**Korean**				
Probable	가능성이 높다	IAS37	Recognition of a liability	62.0	71.3
		IAS38	Recognition of an asset	63.5	74.5
Remote	희박하다	IAS16	Recognition of an asset	9.0	9.7
	아주 낮다	IAS37	Disclosure of a liability	11.2	27.1

Notes: The non-tabulated results indicate significant mean differences in the interpretation of "probable" in different context at the 0.05 level and "remote" in different context at the 0.01 level;

55 The same terms of likelihood could be interpreted differently in different contexts. To investigate whether a similar level of probability is assigned to the same term in different context by the respondents, paired samples t-tests are conducted on the responses provided by Australian and Korean accounting professionals.

56 Table 8 shows that the numerical probabilities assigned to the terms "probable" and "remote" vary across different context in which they are used[25].

57 "Probable" is used in IAS 37 in the context of recognizing a liability and in IAS 38 in the context of recognizing an asset. In the case of asset recognition, respondents tend to be stricter when interpreting the term "probable" compared with the liability recognition case. In the case of "remote", the different context as well as two different Korean terms used to translate the English term "remote" could lead to different interpretations. This also provides additional insight into the effect translation has on the interpretation of IFRS.

58 In addition, it appears that for "probable" and "remote", the probabilities assigned by Australian accounting professionals are lower than those assigned by Korean accounting professionals. The overall effect of assigning lower probabilities to terms of likelihood is to increase the instances that a transaction or event will have to be recognized or disclosed in financial statements. Australian accounting professionals seem to have a more conservative approach in case of liability recognition; while Korean accounting professionals tend to be more conservative when recognizing assets[26].

[25] Collectively, accounting professionals in Korea and Australia asymmetrically interpret same term in different contexts, providing evidence that neutrality (and prudence) in the Conceptual Framework may not necessarily be applied in an intended way in practice.

[26] For example, when "probable" is used to establish the threshold for recognition of an asset or an increase in income, accounting professionals with a more conservative approach may be assigning a higher numerical probability to that term to defer recognition. Conversely, when a "probable" is used to establish the threshold

59 Furthermore, we look at whether these differences for each case are relatively consistent across individual respondents. For example, 71.3% and 74.5% are means of numerical responses for "probable" respectively in Korea; while this may not indicate each Korean respondent display a difference of 3.2%. As shown in Figure 19 and Figure 20, there exist variations in the differences for individual respondents.

Figure 19 Distribution of differences in the interpretation of "probable" in different contexts

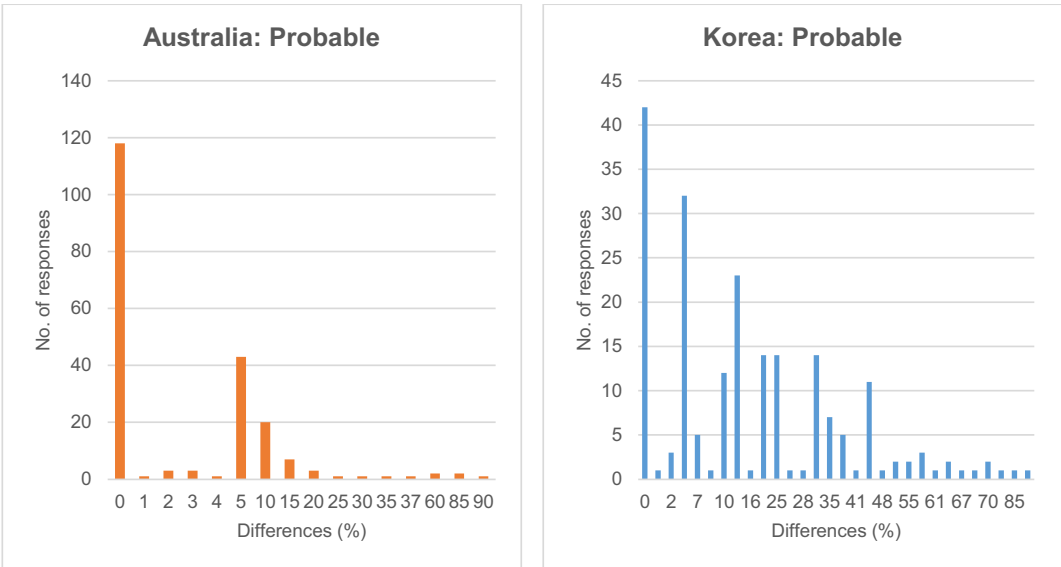
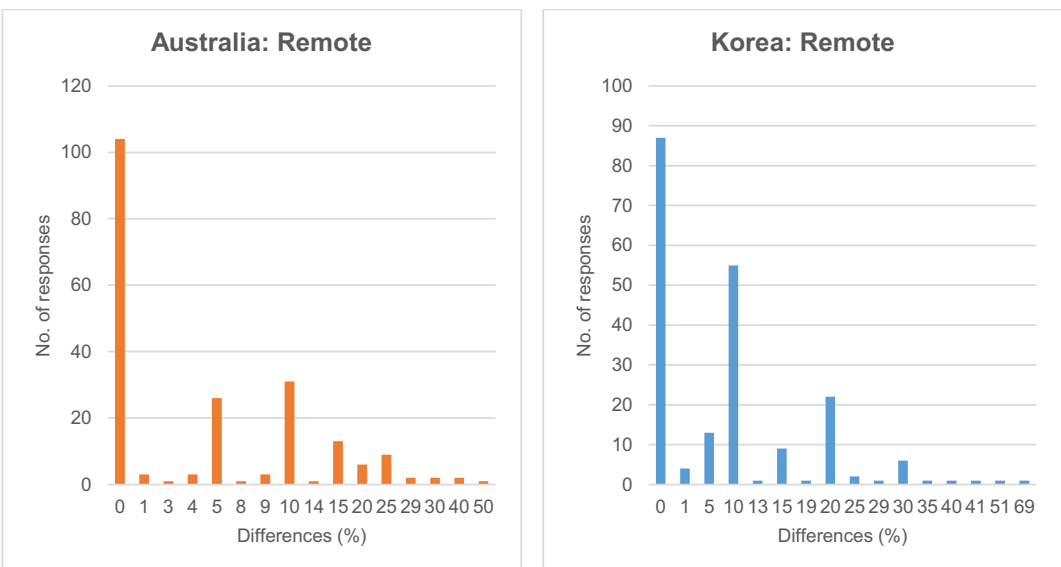


Figure 20 Distribution of differences in the interpretation of "remote" in different contexts



for recognition of a liability or decrease in income, accounting professionals with a more conservative approach may be assigning a lower numerical probability to the expression to accelerate recognition.

4.3 Grouping of terms of likelihood

TABLE 9 Grouping of terms of likelihood

Terms of likelihood	Australia	Korea
Virtually certain	Group A	Group A
Substantially all	Group A	Group B
Highly probable	Group B	Group B
Reasonably certain	Group B	Group A
Reasonably assured		
Probable	Group C	
Likely	Group C	
Reasonably possible		
Possible		
Unlikely	Group D	Group C
Highly unlikely	Group D	Group C
Extremely unlikely	Group E	Group D
Remote	Group E	Group D

Notes: Fisher's least significant differences tests were carried out on the means of terms of likelihood.

60 In order to identify the probability expressions with seemingly similar meanings, the terms of likelihood are grouped to indicate those expressions that have no statistically significant differences to adjacent expressions at the 1% level of significance. This categorization of probability expressions results from the considerable number of expressions being used in accounting standards to denote similar probability levels.

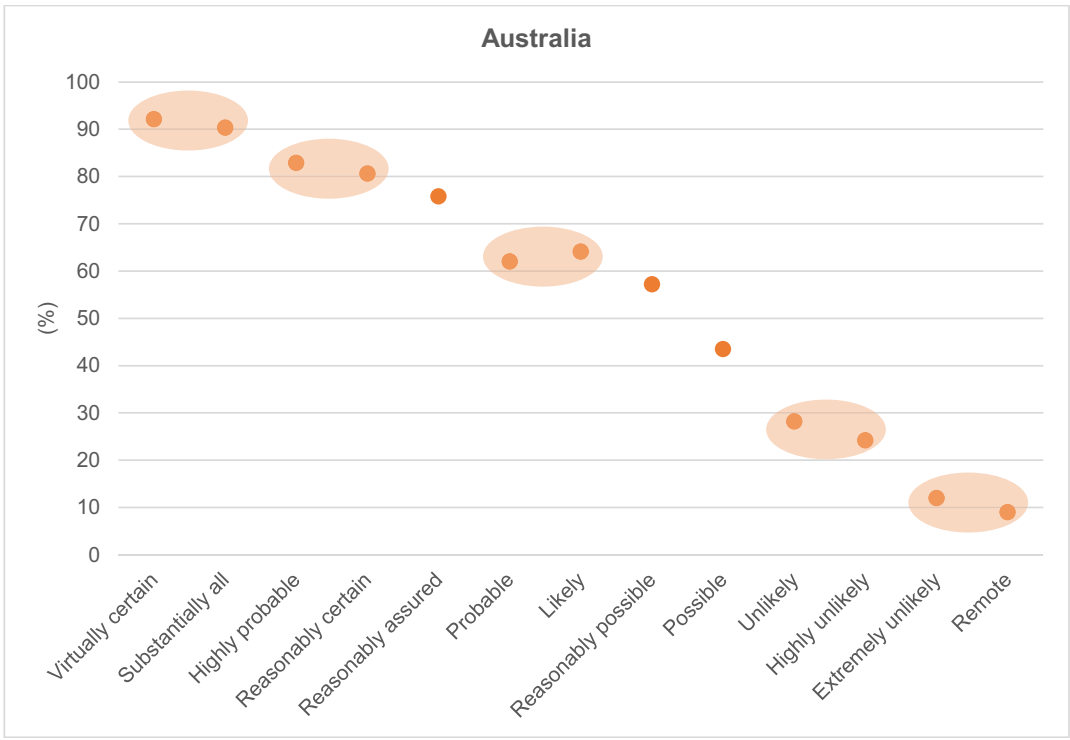
61 This method produces up to 5 categories of probability expressions with similar meanings in each country. That is, different probability expressions have been grouped into categories in Table 9 and Figure 21 when there are no significant differences among them. The results show that many terms of likelihood were seen to have similar meanings.

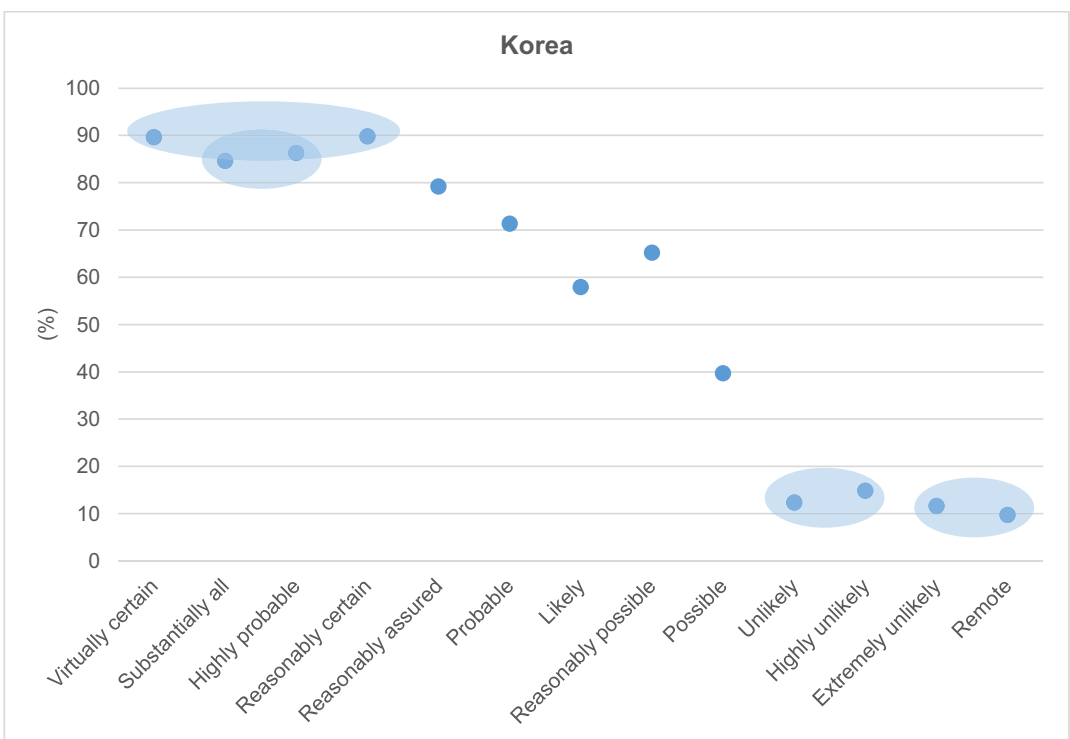
62 For example, "unlikely" and "highly unlikely", and "extremely unlikely" and "remote" are consistently interpreted by Korean and Australian respondents as having similar meanings across cases, indicating that these terms are interpreted equivalently in general. "Probable" and "likely" which are categorized into the same group by Australian accounting professionals are translated into a single Korean expression "가능성이 높다". This means that these two terms are already being interpreted by translators in Korea as having the same probability level.

63 To enhance greater consistency in the application of accounting standards, it may be efficient to consider reducing the number of terms of likelihood in IFRS by retaining expressions which adequately cover the entire probability range[27]. Narrowing down the number of terms may also help to mitigate potential difficulties in the translation process.

[27] For example, New ISAs (International Standards on Auditing) contain approximately 4 terms of likelihood which are "more likely (10 times), likely (109 times), possible (157 times), and unlikely (19 times).

Figure 21 Grouping of terms of likelihood





4.4 Communication efficiency of terms of likelihood

TALBE 10 Communication efficiency of terms of likelihood

Terms of likelihood	Standard deviation		Size of range estimate	
	Australia	Korea	Australia	Korea
Virtually certain	6.8	9.1	7.1	7.8
Substantially all	8.8	12.2	10.5	16.1
Highly probable	8.5	10.6	14.0	11.1
Reasonably certain	11.1	8.2	15.0	7.8
Reasonably assured	11.4	10.2	15.2	14.8
Probable	12.3	14.9	24.2	19.3
Likely	13.7	17.5	23.6	19.3
Reasonably possible	16.8	15.6	22.9	21.5
Possible	20.4	20.2	29.3	20.0
Unlikely	16.8	19.0	23.6	18.5
Highly unlikely	27.0	14.0	12.2	9.9
Extremely unlikely	18.6	12.2	7.4	9.9
Remote	7.3	12.5	8.8	9.4

64 Communication efficiency is defined as a degree of consensus in the interpretation of each term among individuals (Laswad and Mak, 1997; Simon, 2002), estimated in two ways in this research:

(a) the spread of estimates using standard deviation; and
(b) the size of range estimates, calculated as the difference between the two means derived from a lower and an upper numerical probability.

65 Relatively small standard deviations are an indication that accounting professionals interpret these expressions with a greater consensus of meaning; the smaller the range mean, the greater the consensus regarding the interpretation of the terms of likelihood.

66 The results indicate that there exists a wide range of difference in the level of communication efficiency among terms of likelihood. In Table 10, it is clear that the expressions at the high extremes tend to have the smallest standard deviations. In general, we find considerable disagreement in the meaning of "possible" but more agreement for the expression "virtually certain" as shown in Figure 24 and Figure 25. The magnitude of the mean range suggests that the terms such as "possible" convey less precise concepts of probability than do terms such as "virtually certain". For each term of likelihood, the range of probabilities assigned by Australian accounting professionals to English expressions is broader than the range assigned to Korean expressions by Korean accounting professionals.

67 To increase the consistency of accounting treatment of similar events, it seems desirable to encourage use of terms with high communication efficiency (Laswad and Mak, 1997; Amer et al., 1995).

Figure 22 Communication efficiency of terms of likelihood - standard deviation

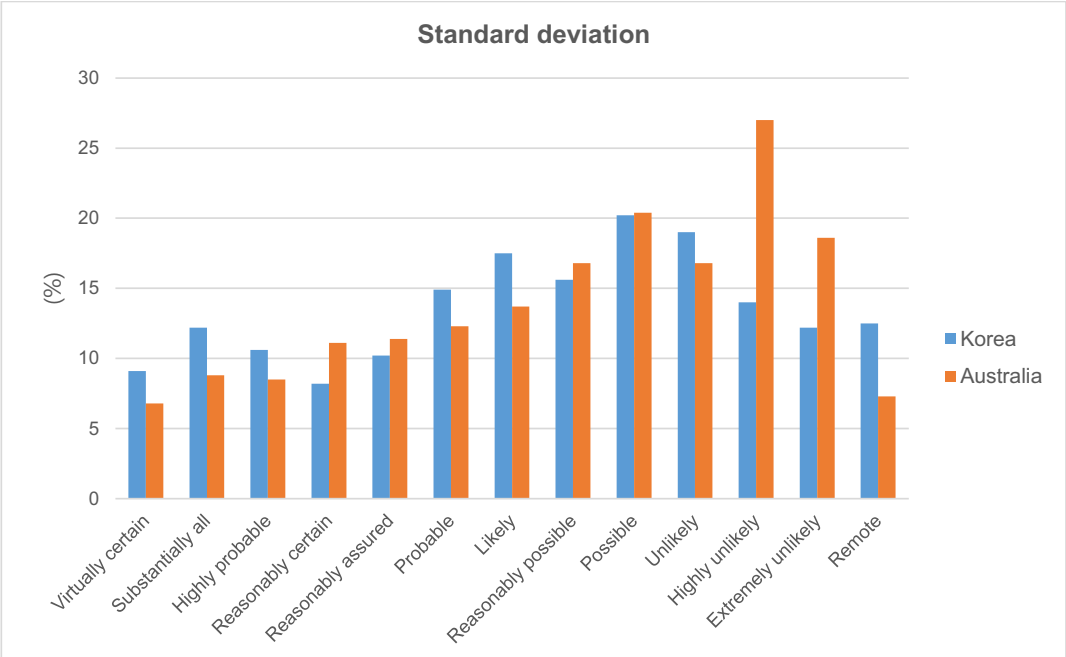


Figure 23 Communication efficiency of terms of likelihood - size of range

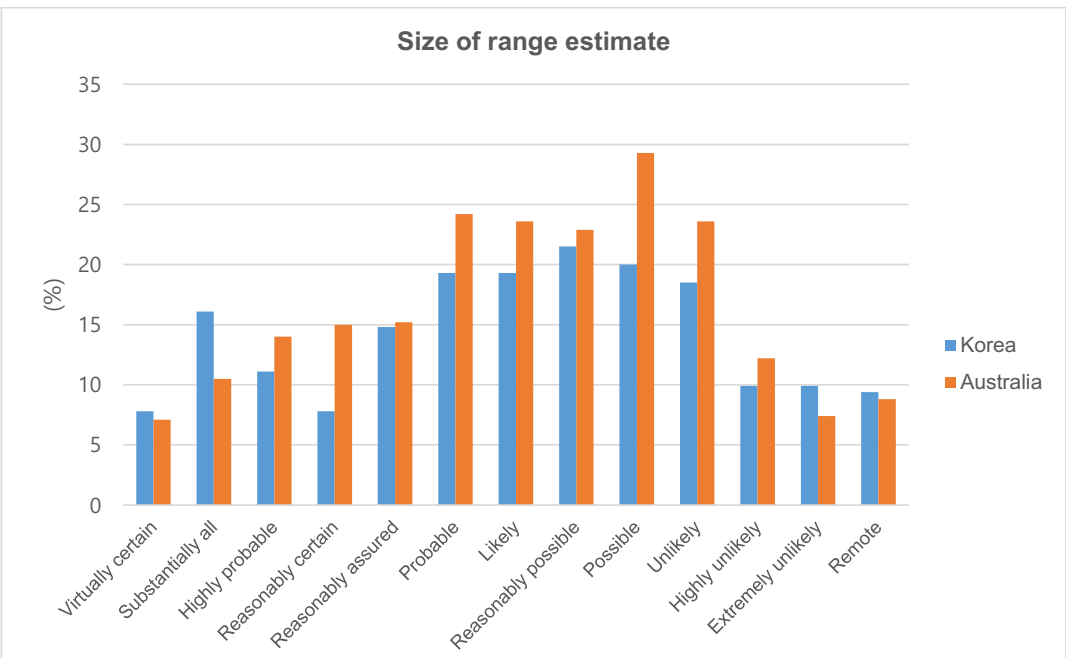


Figure 24 Distributions of interpretation of "virtually certain"

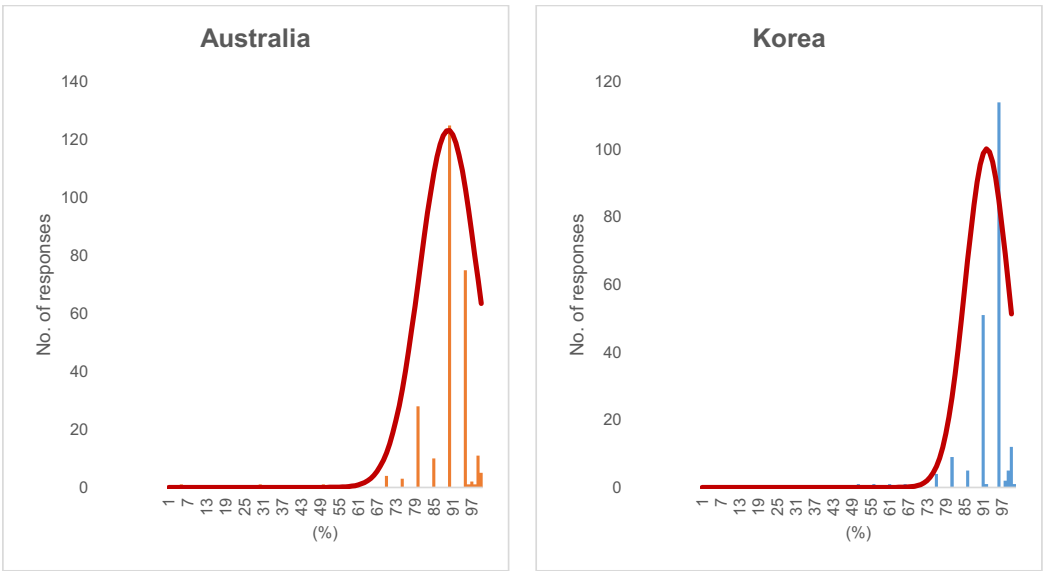
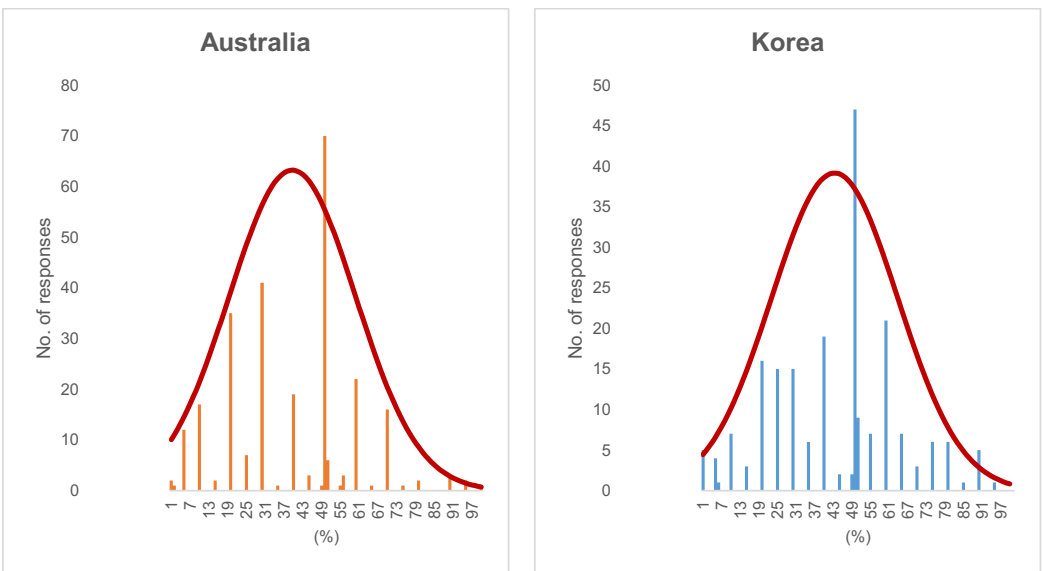


Figure 25 Distributions of interpretation of "possible"



4.5 Probable vs No longer probable

TABLE 11 Probable vs No longer probable

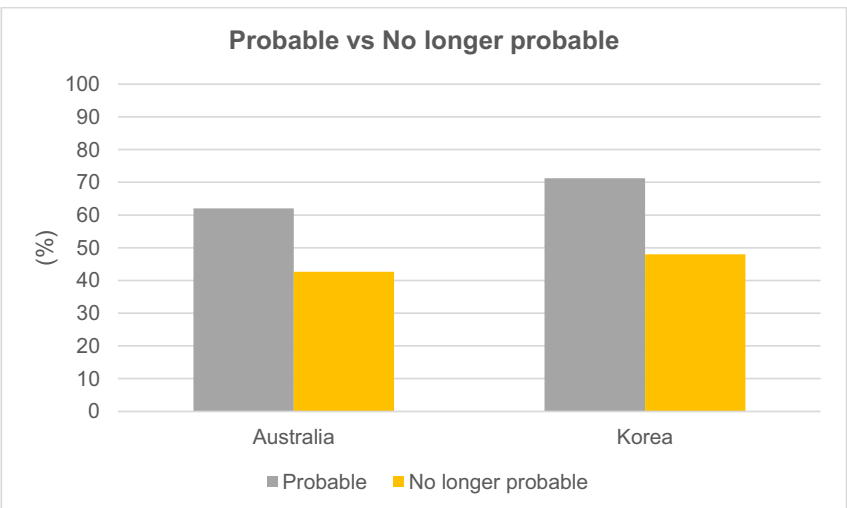
Terms of likelihood	Australia			Korea		
	Mean	Med.	Std.	Mean	Med.	Std.
No longer probable	42.7	45.0	21.5	48.0	49.0	27.8
Probable	62.0	60.0	12.3	71.3	75.0	14.9

68 Table 11 shows the interpretation of "probable" and "no longer probable" respectively. Adding the word "no longer" to "probable" decreases the point estimate mean from 60.4% to 41.7% by Australian accounting professionals as well as from 71.4% to 47.1% for Korean accounting professionals.

69 If "probable" is interpreted as more than "60%", a threshold for "no longer probable" may be less than "60%". However, the results show that there exists a grey area between "probable" and "no longer probable" of approximately 20% on average.

70 Moreover, "no longer probable" has a much larger standard deviation compared with "probable" in both countries and in both accounting professional groups. This suggests that using negative expressions may impair the ability of accounting professionals to consistently determine the intended meaning.

Figure 26 Interpretation of "probable" vs "no longer probable"



4.6 A glimpse of translation issues

71 This research also explored whether there are any translation issues from English to Korean, in particular, in respect of translations of terms of likelihood. IFRS is originally written in English and then translated into other languages. Translation plays a critical role in enabling jurisdictions across the world to understand IFRS in their own language so that IFRS can be interpreted and applied accordingly and consistently.

72 The IFRS Foundation notes that translation is a vital part of achieving the IFRS Foundation's mission to develop a single set of high-quality global accounting standards for use around the world. If IFRS are not being translated appropriately, this adds another potential source of difficulty in achieving comparability of financial statements across countries and consistency in their interpretation. An understanding of this concern led to the IASB's predecessor (the International Accounting Standards Committee [IASC]) to implement its own official translation process in 1997[28]. In particular, given the move toward principles-based standards, the consistent translation of terms of likelihood is likely to become increasingly important.

TABLE 12 A Glimpse of translation issues

Terms of likelihood		Australia	Korea
English	**Korean**		
Virtually certain	가능성이 거의 확실한	94.7	94.1
Reasonably certain		83.5	
Probable	가능성이 높은	72.5	78.6
Likely		71.7	
Highly unlikely	가능성이 매우 낮은	15.1	10.7
Extremely unlikely		8.5	

73 Table 12 shows the interpretation of three different pairs of English expressions not in context. For each pair of the English expressions, only one expression in Korean exists. These are just some examples of many translation issues that require attention.

74 For example, the English term "virtually certain" and "reasonably certain" are both translated into a single Korean term "가능성이 거의 확실한". However, as shown in Table 12, while the probability levels of "virtually certain" perceived by Australian and Korean accounting professionals are similar at 94.7% and 94.1%, respectively, the term "reasonably certain" shows significantly differing probability levels by 10.6% between Australian and Korean respondents.

[28] The International Accounting Standards Committee Foundation (IASCF) created an official translation process in 1997, and IFRS was first officially translated into German. Currently, official translations of IFRS are provided in 13 languages (http://www.ifrs.org/ifrss/Pages/official-unaccompanied-ifrs-translations.aspx).

75 Australian accounting professionals interpret “probable” and “likely” with similar probability levels, suggesting that the translation into a single Korean term is justifiable. Furthermore, the probability levels of both of the terms “highly unlikely” and “extremely unlikely” vary when viewed by Australian and Korean accounting professionals. This indicates that there may be a translation issue that should be addressed.

4.7 Narrative responses

76 We received comments from 118 respondents (38 preparers and 80 auditors) in Korea and 43 respondents (25 preparers and 18 auditors) in Australia regarding to the terms of likelihood used in the standards.

77 Most of the respondents note that terms of likelihood are difficult to interpret. Some comment that there is lack of guidance on the concept of terms of likelihood; and that some clear guidance would be helpful. A number of respondents suggest having percentage ranges or numerical guidance in the standards on the terms of likelihood.

78 There are concerns that terms of likelihood are not used consistently throughout the standards. One common subject of respondents’ comments is that there are multiple terms of likelihood which could be interpreted in the same way. Some suggest terms of likelihood should be simplified and their number reduced.

4.8 Limitations and suggestions for future research

79 In this research, we examine the extent to which accounting professionals in Korea and Australia consistently interpret terms of likelihood in IFRS. The primary results show that there exists inconsistency in the interpretation of most terms examined in this research between two countries. However, this may not necessarily mean that inconsistency in the interpretation of terms of likelihood will lead to significantly different financial reporting outcomes. Hence, further research on investigating the practical impact of any inconsistent interpretation of terms on financial reporting outcomes should be conducted to provide more helpful insights to the IASB.

80 Furthermore, this study does not attempt to directly identify specific factors which may or may not affect the consistency of the interpretation of terms of likelihood across jurisdictions. Some factors such as cultural, educational, regulatory, and other contributing factors could cause accounting professionals from different countries to apply a common set of accounting standards differently, thus potentially affecting the cross-jurisdictional comparability of financial statements. Therefore, we believe these issues would be of interest in further research[29]. In particular, translation issues in terms of likelihood as well as other key terms would be useful areas to further investigate.

81 To ascertain the generalizability of the results of this study, it would be necessary to examine the interpretation of terms of likelihood in a broader range of jurisdictions as it was conducted on only two countries, Korea and Australia.

[29] The IASB states that:
" Language and cultural issues are a challenge to the IASB as it strives to set Standards that can be applied internationally. We are aware that some of the subtlety of the English language does not translate well. For example, the words 'could' and 'would' are translated into the same word in some languages.
We are interested in research that helps us to understand how local factors affect the consistent application of IFRS. This type of research extends into how judgment-based Standards, and words, are applied in different languages and cultures—material, significant, substantial etc." [*Research Opportunities*, IFRS Foundation, 2014, page 11]

5. Conclusion and key recommendations

82 The comparability of financial statements depends not only on having common standards, but also on having the standards interpreted in the same way. The key findings in this research suggest that:

(a) there are differences in interpretation of terms of likelihood between Australian and Korean accounting professionals. Australian and Korean respondents assigned different rankings on some terms of likelihood;

(b) some terms could be interpreted differently in different contexts. For example, respondents tend to be more conservative when interpreting the term "probable" in the context of a liability recognition in comparison to interpreting the term in the context of an asset recognition[30];

(c) some terms of likelihood are not interpreted differently from each other, for example respondents seem to interpret "unlikely" and "highly unlikely" in the same manner;

(d) some terms of likelihood tend to have different levels of communication efficiency which is defined as a degree of consensus in the interpretation of each term among individuals. For example, "virtually certain" appears to have the highest communication efficiency while "possible" seems to have the lowest communication efficiency in both countries;

(e) some terms of likelihood are interpreted differently in different languages by Korean accounting professionals indicating that there may be a translation issue that should be addressed; and

(f) some terms of likelihood cannot be translated into Korean. For example, "probable" and "likely" are translated into a single Korean expression "가능성이 높다", and the terms "virtually certain" and "reasonably certain" are both translated into a single Korean term "가능성이 거의 확실한".

[30] The IASB's ED/2015/3 Conceptual Framework for Financial Reporting proposes changes to the recognition criteria for elements of financial statements. Under the proposals, probability of inflows or outflows of economic resources would no longer be a specific recognition criterion. In support of this proposal, ED/2015/3 notes that "the notion of expected flows is unhelpful, because interpretations of this term can vary widely and are often tied to a notion of a threshold level of probability" [paragraph BC4.14(b)].
Based on IASB's re-deliberations of the ED/2015/3 proposals in progress when this report was written, the new criteria would be for an entity to recognise an asset or a liability (and any related income, expenses or changes in equity) if such recognition provides users of financial statements with:
(a) relevant information about the asset or the liability and about any income, expenses or changes in equity;
(b) a faithful representation of the asset or the liability and of any income, expenses or changes in equity; and
(c) information that results in benefits exceeding the cost of providing that information.
If the proposals proceed, 'probability' would no longer explicitly be a recognition criterion, which could be expected to flow through into new and revised IFRS recognition criteria.

83 The key recommendations to the IASB from the research are:

(a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;

(b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a limited set of applicable terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;

(c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;

(d) the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and

(e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

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Appendix A: Terms of likelihood in IFRS

Terms of Likelihood	Examples of Use
Virtually certain	IAS 19.104A, IAS 37.22, IAS 38 IN 10
No realistic alternative	IAS 1.25, IAS 10.14, IAS 19.3(c), IAS 37.10
Highly probable - significantly more likely than probable (equivalent to FASB likely to occur)	IFRS 5 BC81, IAS 39.9
Reasonably certain	IAS 17.4
Substantially all (risks and rewards, recover, difference)	IAS 1.123, IFRS 9.3.2.6, IAS 39.9, IAS 39.20, IAS 39.21, IAS 39.29, IAS 39.34, IAS 39 AG51,
Substantively enacted	IAS 12.46, IAS 12.47,
Highly effective	IAS 39.88, IAS 39 AG 105
Principally	IFRS 5.6, IAS 16.56, IAS 39.9
Significant	IAS 1.25, IAS 1.45, IAS 12.74, IAS 16.43, IAS 17.35, IAS 18.14(a), IAS 18.35, IAS 36.12, IAS 36.134, IAS 39.9, IAS 39.21, IAS 39.59, IAS 39.61, IAS 39.64, IAS 19.111, IAS 24.9, IAS 26.18, IAS 27.23, IAS 28.3, IAS 31.41, IAS 38.94
Major part	IAS 17.10(c)
Reasonably assured	IAS 20.7
Probable – more likely than not	IFRS 5 BC61, IAS 12.24, IAS 36 BCZ.184(a), IAS 37.14(b), IAS 38.21(a), IAS 41.10(b)
Probable, but not virtually certain	IAS 37 App.A
More likely	IAS 39.22
Likely	IAS 39 AG40
Expected	IAS 12.65, IAS 18.27
Become probable	IAS 12.37, IAS 37.35, IAS 39.59
May, but probably will not	IAS 37 App.A
Not probable	IAS 37 App.A
Reasonably possible	IAS 36.134(f)
Possible	IAS 37.10, IAS 39.9, IAS 39 AG86
Uncertainty	IAS 39 AG121

Terms of Likelihood	Examples of Use
Unlikely	IAS 39 AG44, IAS 39 BC187, IAS 39 BC197
Highly unlikely	IAS 39 AG39, IAS 40.31
Extremely unlikely	IFRS4 App. B B23
Minimal probability	IFRS4 App. B B25
Sufficiently lower	IAS 17 10(b)
Insignificant	IAS 39.9
Insignificant portion	IAS 40.10
No longer significant	IFRS 9.3.2.7, IAS 39.21
Remote	IAS 37.28
Extremely rare	IAS1.19, IAS 37.29, IAS 37.30
Extremely rare, highly abnormal and very unlikely to occur	IFRS 9 B4.1.18
Virtually none	IAS 34 IN6
Not genuine (highly abnormal and extremely unlikely to occur)	IAS 32.25(a)

Appendix B: Survey questionnaire

Professional judgment and the 'terms of likelihood' in IFRS

You are invited to participate in this joint research of the Australian Accounting Standards Board (AASB) and the Korea Accounting Standards Board (KASB).

In this study, we explore the potential effect of cultural differences in using professional judgment in applying and understanding terms of likelihood in the International Financial Reporting Standards (IFRS).

The questionnaire consists of four sections: (I) Terms of likelihood in IFRS, (II) Background, (III) Interpretation of terms of likelihood, and (IV) Other information. Your responses to the section (I) and (III) may not be necessarily consistent with each other. There are no right or wrong answers to all questions.

To participate in this study, please answer all the questions contained in the questionnaire, which should take approximately 15 minutes. Submitting the completed questionnaire will be deemed as providing consent to participate in this project.

Only the researchers will have access to the data collected. The responses will be analysed on an aggregate basis and all future publications and presentations will only present results pertaining to aggregate data. Thus it will be impossible to identify individual responses. We would greatly appreciate your time to complete the questionnaire.

The results of this study will be made public through various domestic and international standards-setter meetings, conference presentations and research report publications. If you wish to have a copy of any of the publications from this research, please contact us:

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I. Terms of likelihood in IFRS

Listed below are the **terms of *likelihood*** that are contained in IFRS which relate to a level of probability of a transaction or event occurring. Please indicate the **range of probability** that best corresponds, in your professional opinion, to each term of likelihood in percentage (%) terms on a scale of 0% to 100%.

Example 1:
On the scale of **likelihood**, if in your professional opinion that the expression "**virtually none**" corresponds to the range of probability ***between*** 5% and 10%, then you would indicate this value in the space provided, as follows:

Virtually none **from 5% to 10%**

Example 2:
On the scale of **likelihood**, if in your professional opinion that the expression "**virtually all**" corresponds to the range of probability ***between*** 95% and 99%, then you would indicate this value in the space provided, as follows:

Virtually all **from 95% to 99%**

	Terms of likelihood	Range of probability in percentage (%)
1	Likely	from____% to____%
2	Probable	from____% to____%
3	Unlikely	from____% to____%
4	Substantially all	from____% to____%
5	Reasonably assured	from____% to____%
6	Virtually certain	from____% to____%
7	Highly unlikely	from____% to____%
8	Remote	from____% to____%
9	Reasonably possible	from____% to____%
10	Highly probable	from____% to____%
11	Extremely unlikely	from____% to____%
12	Possible	from____% to____%
13	Reasonably certain	from____% to____%

II. Background

※ Please tick a box that applies to you for each of the below questions.

1. Which country are you from?

☐ Australia ☐ Korea

2. Where is your main country of residence in the past 5 years? _____

3. Which professional group do you belong to?

☐ Auditors ☐ F/S preparers(companies)

4. What is your gender?

☐ Male ☐ Female

5. What is your age group?

☐ 20-24 ☐ 25-29 ☐ 30-34
☐ 35-39 ☐ 40-44 ☐ 45-49
☐ 50-54 ☐ 55-59 ☐ 60 or over

6. What is your position in your company?

☐ Associate ☐ Senior Associate ☐ Manager
☐ Senior Manager ☐ Director ☐ Partner
☐ Chief Financial Officer ☐ Other: please specify_____

7. How many years of professional experience do you have as a CA/CPA or other equivalent accounting professional qualification?

☐ Less than 3 years ☐ 3-5 years ☐ 6-10 years
☐ 11-15 years ☐ 16-20 years ☐ More than 20 years
☐ I do not have any accounting professional qualification.

8. The question below is to understand your attitude toward risk.
You are offered $500 or you could gamble for $1000. What is the probability of winning $1000 that could attract you to gamble rather than taking $500? _____%

9. How frequently do you refer to IFRS (or equivalent standards i.e. Australian Accounting Standards, K-IFRS) in your professional practice?

☐ Always ☐ Usually ☐ Sometimes
☐ Seldom ☐ Never

III. Interpretation of terms of likelihood

Listed below are the **terms of *likelihood*** that are contained in IFRS which relate to a level of probability. Please indicate the numerical probability that best corresponds, in your professional opinion, to each term of likelihood in percentage (%) terms on a scale of 0% to 100%.

Example 1:
Virtually none of the notes to the annual financial statements are repeated or updated in the interim report.

To respond:
On the scale of **likelihood**, if in your professional opinion that the expression "**virtually none**" corresponds to a probability of ***less* than or equal to** 5%, then you would indicate this value in the space provided, as follows:

Virtually none **5** **%**

Example 2:
Virtually all of the notes to the annual financial statements are repeated or updated in the interim report.

To respond:
On the scale of **likelihood**, if in your professional opinion that the expression "**virtually all**" corresponds to a probability of *more* than or equal to 95%, then you would indicate this value in the space provided, as follows:

Virtually all **95** **%**

	Terms of likelihood	Numerical percentage (%)
1	A bearer plant is a living plant that has a **remote** likelihood of being sold as agricultural produce, except for incidental scrap sales.	_____ %
2	The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is **reasonably certain** that the lessee will exercise the option.	_____ %
3	Government grants, including non-monetary grants at fair value, shall not be recognised until there is **reasonable assurance** that: (a) the entity will comply with the conditions attaching to them; and (b) the grants will be received.	_____ %
4	An entity shall cease capitalising borrowing costs when **substantially all** the activities necessary to prepare the qualifying asset for its intended use or sale are complete.	_____ %

	Terms of likelihood	Numerical percentage (%)
5	Market interest rates or other market rates of return on investments have increased during the period, and those increases are **likely** to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.	_____ %
6	A contingent liability is a **possible** obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.	_____ %
7	A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is **remote**.	_____ %
8	Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is **virtually certain**, then the related asset is not a contingent asset and its recognition is appropriate.	_____ %
9	If it is **no longer probable** that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.	_____ %
10	A provision shall be recognized when: It is **probable** that an outflow of resources embodying economic benefits will be required to settle the obligation.	_____ %
11	It is **highly unlikely** that a change from the fair value model to the cost model will result in a more relevant presentation.	_____ %
12	An entity considers the following criteria in assessing the probability that taxable profit will be available against which the unused tax losses or unused tax credits can be utilized whether the unused tax losses result from identifiable causes which are **unlikely** to recur.	_____ %
13	If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is **extremely unlikely** or even if the expected (i.e. probability-weighted) present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.	_____ %
14	A sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were **reasonably possible** at that date.	_____ %
15	If a hedged item is a forecast transaction (or a component thereof), that transaction must be **highly probable**.	_____ %
16	It is **probable** that the expected future economic benefits that are attributable to the asset will flow to the entity.	_____ %

IV. Other information

1. Please answer the question below.

Statements		*Strongly Disagree*				*Strongly Agree*
		1	**2**	**3**	**4**	**5**
(a)	I am familiar with the International Financial Reporting Standards or equivalent standards, i.e. Australian Accounting Standards or K-IFRS.	☐	☐	☐	☐	☐
(b)	I am comfortable with the judgments I made on the terms of likelihood in this survey.	☐	☐	☐	☐	☐
(c)	In my experience, the understanding of terms of likelihood is important for the application of IFRS.	☐	☐	☐	☐	☐

2. Are there any comments you would like to make in regard to the terms of likelihood in the Standards?

※ If you wish to be contacted for any clarification or future projects, please leave your contact information below. (Optional)

Name	
Company	
Phone number	
E-mail	

Appendix C: Questions to constituents

The KASB and AASB invite comments on all matters in this joint research project "Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia", particularly in relation to the questions set out below. Please send us your comments by 27 May 2016.

Question 1 – Recommendations to the IASB

1. In this research, we identified at least 35 terms of likelihood in IFRS which may add another layer of challenges in coming to consistent application of IFRS across jurisdictions. The key recommendations to the IASB include:

    (a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;

    (b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference;

    (c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;

    (d) the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and

    (e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

Do you agree? Why or why not?

Question 2 – Other comments

2. Are there any comments you would like to make in regard to (a) terms of likelihood or other key terms in IFRS and (b) use of language in IFRS generally?

How to comment

Please send your comment to: **ymseo@kasb.or.kr**

Appendix D: Summary of comments received

• The KASB and the AASB have received comments from six National Standard-Setters as below (in alphabetical order):

(a) Accounting Standards Board;

(b) Accounting Standards Committee of Germany;

(c) Accounting Research and Development Foundation;

(d) Autorité des Norms Comptables;

(e) Dutch Accounting Standards Board; and

(f) Hong Kong Institute of Certified Public Accountants.

※ *Appendix D summarizes the comments and some of the comments received are attached in Appendix E to this research report.*

1. Summary of overall comments

(a) Accounting Standards Board (AcSB)

- AcSB thinks that this study will be useful in (a) highlighting the challenges of translating IFRSs from English to other languages and (b) illustrating potential sources of application diversity in IFRSs between jurisdictions.
- Overall, it agrees with the recommendations in the draft research report, as it thinks that if implemented, these recommendations will increase comparability in global financial reporting.
- Particularly, it understands that there are several challenges when translating IFRS from English to French in case of Canada, based on discussions with its translators. These challenges include (a) the lack of clarity in the English phraseology and (b) the lack of French terms equivalent to the English terms, both of which can affect the quality of the translation.
- Thus, it think that the clarity and translation of IFRSs could be improved if the IASB were to request feedback on these characteristics during the development of a standard, which could help to identify translation issues earlier in the process.
- It also think that there should be a mechanism that enables other jurisdictions to share their concerns with the jurisdiction(s) responsible for translations.

(b) Accounting Standards Committee of Germany (ASCG)

- ASCG supports taking up the subject for further exploration. It agrees with the research results and there also exist comparable issues in Germany, for example, “probable” and “likely” have the same meaning in German.
- However, it noted that further research would be necessary to investigate practical impacts in more details.

(c) Accounting Research and Development Foundation (ARDF)

- It generally supports the recommendations, except recommendation (d) and (e).

(d) Autorité des Norms Comptables (ANC)

- In ANC's views, the tentative recommendations to the IASB, based on the results of this study, are particularly clear-sighted.
- As a general comments, it supports the different key recommendations but points out some concerns, notably as regards the need that IFRS standards remain principle based under the constraint of being sufficiently specific and understandable.
- In its view, the IASB challenges are to:
  - Implement a Top-Down approach that should permit (i) specifying the general definition of likelihood in English, (ii) identifying all likelihood related words used in IFRS standards and streamlining them where necessary, and (iii) ensuring all likelihood related terms are both translated concisely and in a way leading to the homogeneous application of the underlying concepts and principles;
  - Find the right balance in order to ensure IFRS standards are at the same time principles' based and specific enough to be understandable on a standalone basis; and
  - Ensure the set of IFRS standards is drafted in a way taking into consideration cultural differences and related understanding bias.

(e) Dutch Accounting Standards Board (DASB)

- DASB agrees with the recommendations.

(f) Hong Kong Institute of Certified Public Accountants (HKICPA)

- HKICPA finds that the research is very interesting and useful to understand the diversity in interpretation of terms. It supports the recommendations highlighted in the research report.

2. Summary of comments on the recommendations to the IASB

Rec.	Comments	
(a)	ASCG	✓ **Agree**. ✓ It thinks that further exploration with practical cases would be necessary to support this argument: "There may be situations in which this could be expected to give rise to material differences between financial statements." ✓ As those terms are interpreted in broader buckets such as 50%, 80%, etc., it suggest to further investigate whether there exists inconsistent interpretation of those threshold may lead to actual differences in accounting outcome across jurisdictions. ✓ Finally, it has doubts "whether it would really be possible to single out English terms for which an equivalent, adequate and stylistically appropriate term exists in each and every language".
	ANC	✓ **Agree**.
	ARDF	✓ **Agree**.
(b)	AcSB	✓ **Agree**. ✓ It agrees that the number of terms of likelihood should be reduced and think that using a smaller number of well-defined terms could lead to more consistent translations and application of IFRSs.
	ASCG	✓ **Agree**. ✓ It suggests that it would be useful to define a certain number of probability cluster/intervals and to assign specific probability ranges to these intervals, described qualitatively.
	ARDF	✓ **Agree**. ✓ It believes that limiting the number of terms used for likelihood would improve the consistency in applying IFRS between entities and jurisdictions.
	ANC	✓ **Agree**. ✓ It believes that a two steps approach should be developed in order first (i) to define what is meant by likelihood, when and for what purpose it should be used, and in a second time (ii) to streamline and articulate the different sub-definitions of likelihood. ✓ Step (i): ANC considers that the definition of likelihood should be reviewed in order to ensure all IFRS jurisdictions agree on the meaning of the term and homogeneously apply and it also considers crucial that definitions remain principles based, giving the priority to a methodological approach with examples rather than introducing percentage or thresholds. ✓ Step (ii): ANC believes that it is necessary to identify all likelihood-related terms used in the set of IFRS and determine if likelihood-related concepts apply differently depending on the nature of the underlying assets and liabilities. ✓ It considers that IASB members will have to determine if they consider it is useful to develop a full range of likelihood sub-definitions in order to customize each term identified to the needs of type of assets and liabilities, or situations considers.
(c)	AcSB	✓ **Disagree**.

Rec.	Comments	
		✓ It does not agree that "consideration should be given to developing principles on terms of likelihood" because it thinks that the term of "likelihood" is the underlying principle that should be used when applying a standard.
	ASCG	✓ **Agree**. ✓ It agrees with developing principles and guidance on terms of likelihood to assist consistent interpretation, while they should be non-numerical.
	ARDF	✓ **Agree**.
	ANC	✓ **Agree**. ✓ It agrees with the fact that increasing the number of examples in the standards and developing guidance on how to use the terms of likelihood might be helpful to preparers and auditors, while it believes that all IFRS need to remain principles based and judgmental approaches should not be driven by examples or situations presented in the guidance. ✓ It also believes that a right balance needs to be found between a more detailed approach and a principle based approach.
(d)	AcSB	✓ **Disagree**. ✓ It thinks that neutrality in the recognition of assets, liabilities, income and expenses should be the underlying principles for which the Conceptual Framework is built, with any departures from this principle undertaken at the standards level. ✓ Even though some preparers and auditors may factor in their own level of "conservatism" when applying IFRSs, it thinks that this perspective should not change the asset and liability recognition criteria in the Conceptual Framework.
	ASCG	✓ **Agree**.
	ARDF	✓ **Disagree**. ✓ As the IASB has made a clear statement about neutrality and has considered the interaction between neutrality and conservatism, it would be incorrect to apply any sort of conservatism when applying IFRS.
	ANC	✓ **Agree**. ✓ It fully supports recommendation (d) and this is congruent with the ANC's December 2015 comment letter to the IASB on the 2015/03 Conceptual Framework ED. ✓ Based on field test in France and in light of the KASB and AASB study, ANC reinforces its 2015 comment and considers that the IASB should clearly have in mind the natural professional bias that affect preparers and auditors decisions when assessing likelihood which includes a kind of "conservatism" when applying this concept. ✓ Such professional practice shared by accounting professionals worldwide should be taken into consideration when re-deliberations on the Conceptual Framework take place.
(e)	AcSB	✓ **Agree**. ✓ It supports recommendation (e).

Rec.	Comments	
		✓ It thinks that the recommendations will improve the translation of IFRSs and may reduce interpretation challenges. Also, consistent with the findings in the research, its translation services group has identified the following challenges: (a) lack of a translation equivalent; (b) lost "degree" of meaning; and (c) additional translation concerns. ✓ For example, terms such as "alternative" and "remote" do not have a French equivalent. ✓ For example, the "degree" of terms such as likely (more likely, likely, extremely unlikely, highly unlikely) and probable (become probable, reasonably probable, minimal probability) may be lost on translation from English to French. ✓ Several terms used in IFRSs are challenging to translate from English to French because they may (a) have a circular translation, (b) be used differently, or (c) be easily mistranslated.
	ASCG	✓ **Agree**. ✓ It strongly agree with recommendation (e). ✓ It argues that explicit consideration of linguistic aspects in DPs, EDs or Draft Interpretations is essential to identify any potential difficulties in interpreting and applying the standards at earlier stage. ✓ Examples of questions may be: "Are you aware of any translation issues this amendments or pronouncement might cause?" "Are you aware of any interpretative guidance in your jurisdiction that exits on this issue?"
	ARDF	✓ **Disagree**. ✓ In its view, the standard-setter should make more effort on making proper expression to ensure consistent application of IFRS and it does not believe the input on translation and interpretation issues will improve the comparability of financial information between different jurisdictions.
	ANC	✓ **Agree**. ✓ It supports recommendation (e), particularly the statement "the IASB should seek to obtain input on translation and interpretation issues in different jurisdictions". ✓ As words bear with them a set of underlying and unformulated meanings, local cultures and beliefs may affect the understanding of a concept, principle, word as well as the way a word is translated. ✓ Therefore, ANC highlights the fact that translations need to be carefully performed, notably for languages recognized as national and official language in different countries such as Spanish, French, Portuguese, etc. ✓ This comments also applies to counties using IFRS standards in English, as it must be noted that English as for all other languages can be differently used and understood across the world and this

Rec.	Comments	
		understanding also depends on the level of expertise in English of each IFRS user.
Others	ARDF	✓ It suggests that the IASB use more straightforward language and less ambiguous wording, which would make the translation and interpretation of IFRS easier.
	ANC	✓ It recommends that a general glossary of "defined terms" is developed in order to centralize the words and concepts used across the set of standards proposing clear and homogenous definitions. ✓ The question evidenced as regard likelihood interpretation is not limited to the use and translation of that specific word, but is a wider question that affects all IFRS standard's key words. It points out the fact that cultural diversity is a key parameter that affect the way IFRS standards are understood and applied. Hence, such diversity should be taken into consideration when aiming at developing a single set of accounting standards to be applied across the world. ✓ It is clear that the language and interpretation issue raised when analyzing the way the term "likelihood" is interpreted in different cultures, is actually a much wider issue and should be generalized. ✓ ANC believes that when developing IFRS, the IASB should take into considerations the different parameters presented and should also rely on research, including linguistic, anthropology, psychology aspects, as well as local field tests, studies and quality reviews in order to assess how words and concepts are locally used and understood.
	HKICPA	✓ It would be useful to know whether investor analysts and regulators of any sort have a view on the research. ✓ It would be also interesting to look at how users of financial reports in different jurisdictions think about the terms.

Appendix E: Comments received

Comments from AcSB (Accounting Standards Board), ASCG (Accounting Standards Committee of Germany) and ANC (Autorité des Norms Comptables) are attached to this research report for your reference.

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3222 Fax: (416) 204-3412 www.frascanada.ca

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél: (416) 977-3222 Téléc: (416) 204-3412 www.nifccanada.ca

June 3, 2016

Australian Accounting Standards Board
530 Collins Street, Level 14
Melbourne, VIC 3000
Australia

Korean Accounting Standards Board
39 Sejong-daero Jung-gu
Seoul, 04513
Korea

Dear Sirs:

Re: Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the Korea Accounting Standards Board's (KASB) and Australian Accounting Standards Board's (AASB) draft research report, "Accounting Judgments on Terms of Likelihood in IFRS: Korean and Australia" issued as a near-final draft in April 2016.

The views expressed in this letter take into account comments from individual members of the AcSB staff and members of our Translation Services Group.

We appreciate the opportunity to contribute by providing input on your findings in the draft research report. We commend both the KASB and the AASB for undertaking this initiative because we think that the study will be useful in:

(a) highlighting the challenges of translating IFRSs from English to other languages; and
(b) illustrating potential sources of application diversity in IFRSs between jurisdictions.

Overall recommendation:

We strongly support global comparability in financial reporting and the development of standards that improve the quality of information by reporting entities. Overall, we agree with your recommendations in your draft research report, as we think that if implemented, these recommendations will increase comparability in global financial reporting.

In Canada, we have two official languages and therefore translate IFRSs from English to French. Also, Canada provides the official translation of IFRSs from English to French. We understand that there are several

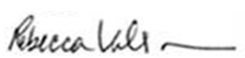
challenges when translating IFRSs from English to French based on discussions with our translators. These challenges include the lack of clarity in the English phraseology and the lack of French terms equivalent to the English terms both of which can affect the quality of the translation. Thus, we think that the clarity and translation of IFRSs could be improved if the IASB were to request feedback on these characteristics during the development of a standard. This feedback could help to identify translation issues earlier in the process such that enhancements to English text and translations can be considered prior to the release of the final standards. We also think that there should be a mechanism that enables other jurisdictions to share their concerns with the jurisdiction(s) responsible for translations.

We asked two of our senior translators to review and provide the French translation of the various terms of likelihood identified in Appendix A of your draft research report (the results of which are included in Appendix B to this letter). As a result of this review, we have identified several issues when translating IFRSs from English to French that are summarized in Appendix A to this letter.

Responses to the questions asked in the draft research report are provided in the Appendix A to this letter.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Andrew White, Principal, Accounting Standards (+1 416 204-3487 or email awhite@cpacanada.ca).

Yours truly,



Rebecca Villmann, CPA, CA
CPA (Illinois)
Director, Accounting Standards

APPENDIX A

Question 1—Recommendations to the IASB
In this research, we identified at least 35 terms of likelihood in IFRS which may add another layer of challenges in coming to consistent application of IFRS across jurisdictions. The key recommendations to the IASB include: (a) standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements; (b) standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference; (c) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples; (d) the IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and (e) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions. Do you agree? Why or why not?

1. We have not been made aware of any significant challenges in Canada regarding the use of the various terms of likelihood, nor concerns that these terms give rise to material differences between financial statements. We agree that the number of terms of likelihood should be reduced and think that using a smaller number of well-defined terms could lead to more consistent translations and application of IFRSs.

2. We do not agree that "consideration should be given to developing principles on terms of likelihood" because we think that the term of "likelihood" is the underlying principle that should be used when applying a standard.

3. The *Conceptual Framework for Financial Reporting* Exposure Draft includes the principle of neutrality regarding the faithful representation of the financial information of an entity. We think that neutrality in the recognition of assets, liabilities, income and expenses should be the underlying principle for which the *Conceptual Framework* is built, with any departures from this principle undertaken at the standards level. We understand that, some preparers and auditors may factor in their own level of "conservatism" when applying IFRSs. However, we think that this perspective should not change the asset and liability recognition criteria in the *Conceptual Framework*.

4. Our translators have reviewed and translated the various terms of likelihood identified in Appendix A of your draft research report. They identified several translation issues that support your findings. Overall, we think that your recommendations will improve the translation of IFRSs and may reduce interpretation challenges. Also, consistent with your findings, our translation services group has identified the following challenges:

    (a) Lack of a translation equivalent;
    (b) Lost "degree" of meaning; and
    (c) Additional translation concerns

Lack of translation equivalent

5. There are several terms used in IFRSs that when translated do not have a robust French equivalent. This may lead to confusion and could result in the development of a local convention that may not fit all contexts and could lead to interpretation challenges. For example, the term "alternative" does not have a French equivalent. As such, the French term "autre solution" has been used conventionally for the French translation. The same is true for term "remote" which does not have a French equivalent.

Lost "degree" of meaning

6. The "degree" of the following terms may be lost on translation from English to French:

    (a) Likely (more likely, likely, extremely unlikely, highly unlikely); and
    (b) Probable (become probable, reasonably probable, minimal probability).

7. For example, there may be mistranslation of terms such as "highly unlikely" when translated from English to French. As illustrated in Appendix B to this letter, the term "highly likely" has been translated differently in two standards[1]. The French translation of this term in the respective IFRSs is "tres improbable" and "hautement improbable", which when translated to English mean "very unlikely" and

[1] Paragraph IAS 39.AG39 uses "tres improbable"; whereas paragraph IAS 40.31 uses "hautement improbable."

"highly unlikely". We think that this translation difference could affect a French reader's assessment of the degree of likelihood of a particular event or transaction and could lead to a different conclusion when compared to those of an English reader.

Additional translation concerns

8. Several terms used in IFRSs are challenging to translate from English to French because they may:

   (a) have a circular translation;
   (b) be used differently (sometimes as an adjective and sometimes as a passive verb); or
   (c) be easily mistranslated.

9. For example, the term "probable" which is defined as "more likely than not" is translated into French as "probable: plus probable qu'improbable". In this case, the word likely has been replaced with "probable" and therefore results in a circular translation (i.e., likely and probable have been translated in the same way). As such, if the French term was translated back into English, it would read "probable: more probable than not".

10. Terms like "expected" are sometimes used as an adjective and sometimes as a passive verb, making consistent translation of the term impossible. For example, when "expected" is used as a passive verb, French translation may require the use of an impersonal pronoun such as "on" that may confuse readers.

11. Finally, there is the risk of confusion and mistranslation of several terms including significant (or insignificant, insignificant portion, no longer significant) and not genuine. Appendix B to this letter illustrates that these terms have been translated into French in different ways throughout the examples identified in Appendix A to your research study. Specifically, IAS 16.43 refers to "a cost that is significant in relation to total cost". In this case, the French term "significatif" was used in the translated version of the standard, which when translated into English means "material". Additionally, the IFRS term insignificant used in the context "more than an insignificant" may easily be mistranslated into "plus que negligeable" which actually means "highly insignificant".

Question 2—Other comments
Are there any comments you would like to make in regard to (a) terms of likelihood or other key terms in IFRS and (b) use of language in IFRS generally.

12. We do not have any additional comments.

APPENDIX B

Translation of Terms of Likelihood from English to French

Terms of Likelihood (English)	French Translation of terms of likelihood (based on "Examples in Use" identified in research paper)
virtually certain	Quasiment certaine
no realistic alternative	Pas d'autre solution realiste
highly probable	Hautement probable
reasonably certain	Certitude raisonnable
substantially all	En substance, tous; or quasi-totalite
substantively enacted	Quasi adoptes
highly effective	Hautement efficace
Principally	Principalement
Significant	Important; or significatif; or principals; or negligeable; or notable (dependent on context)
major part	Majeure partie
reasonably assured [not used in IFRSs; actually "reasonable assurance"]	Assurance raisonnable
Probable	Probable
more likely	La plus probable
Likely	Probablement
Expected	Que l'on s'attend a
become probable	Devenu probable; or probabilite croissante
not probable	N'est pas probable
reasonably possible	Raisonnablement possible
Possible	Potential; or possibles
Uncertainty	Incertitude
Unlikely	Improbable
highly unlikely	Tres improbable; or hautement improbable
extremely unlikely	Extremement improbable
minimal probability	Probabilite minimale
sufficiently lower	Suffisamment inferieur
Insignificant	Negligeable
insignificant portion	Pas significative
no longer significant	N'est plus importante
Remote	Faible
extremely rare	Extremement rare
extremely rare, highly abnormal and very unlikely to occur	Extremement rare, hautement anormal et don't la survenance est tres improbable
not genuine	N'est pas authentique; or n'est pas veritable

Contribution of the ANC to the questions raised by KASB and AASB on their joint research project

"Accounting Judgment on Terms of Likelihood in IFRS: Korea and Australia"

Question 1 – Recommendations to the IASB

1. **In this research, we identified at least 35 terms of likelihood in IFRS which may add another layer of challenges in coming to consistent application of IFRS across jurisdictions. The key recommendations to the IASB include:**

(a) **Standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements;**

(b) **Standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards ; some of the approaches employed in this research project could be considered for reference;**

(c) **Consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples;**

(d) **The IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS; and**

(e) **Standard-setting outreach and consultative process should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.**

Do you agree? Why or why not?

ANC welcomes the Joint Research Project realized by the Korean and Australian standard setters focusing on the way accounting judgments are performed in different countries when using and giving a measure to the different IFRS's terms of likelihood. In ANC's views, the tentative recommendations to the IASB, based on the results of this study, are particularly clear-sighted. As a general comment, ANC supports the different key recommendations but points out some concerns, notably as regards the need that IFRS standards remain principle based under the constraint of being sufficiently specific and understandable.

In ANC views, the IASB challenges are to:

- Implement a Top-Down approach that should permit (i) specifying the general definition of likelihood in English (ii) identifying all likelihood related words used in IFRS standards and streamlining them where necessary (iii) ensuring all likelihood related terms are both translated concisely and in a way leading to the homogeneous application of the underlying concepts and principles.
- Find the right balance in order to ensure IFRS standards are at the same time principles' based and specific enough to be understandable on a standalone basis.

Ensure the set of IFRS standards is drafted in a way taking into consideration cultural differences and related understanding bias.

(1) Comments on recommendations a, b and c – Defining likelihood and articulating the different sub-components of the likelihood concept

ANC believes that a two steps approach should be developed in order first (i) to define what is meant by likelihood, when and for what purpose it should be used, and in a second time (ii) to streamline and articulate the different sub-definitions of likelihood.

(i) Clearly define what is meant by likelihood, when and for what purpose it should be used

In accountancy, likelihood is used to assess the "chance of something happening / how likely something is to happen[1]". In a way and in the IFRS standards context, likelihood is somehow related to probability, and this view seems to be supported by the fact that the easiest way to compare the interpretations worldwide of the term of likelihood is to rely on percentages.

First of all, probability is a concept used in statistics and philosophers of Science[2] provide two different types of definitions. On one side, probabilities are considered to be an intrinsic quality of the world; on the other side, probabilities are considered to be a degree of belief in a context of uncertainties (Bayesian statistics)

Under an accounting point of view, it means that assessing the likelihood of an event will depend on the nature and context of the transactions:

- When the entity is able to rely on past transactions / events to determine the likelihood of a situation, it is possible to establish general principles and homogeneously apply percentage of probability.
  - For instance, when Groups face legal or tax litigations, they can rely on a probability based approach relying on past experience. Hence internal accounting policies can define a Group methodology (e.g. Accounting policies on tax litigation can for instance state that if based on past experience and Tax Administration recent positions the entity is able to determine if an error has been made (100 % provision), if it believes the interpretation of the Tax administration in incorrect (0% provision), or if it believes the interpretation remains uncertain (50% provision representing the uncertainty (average)).
- When the entity analyses the likelihood of a specific and isolated transaction the approach becomes more complex and judgmental as it cannot rely on past experience. Hence, no internal accounting principle can help determining the likelihood of such transaction. Judgment has to be exercised on a case by case basis, taking into consideration all facts and circumstances.

1 Oxford Advance Learners Dictionary
2 As for instance by Ian Hacking, 1975 (2nd edition July 2006), "The emergence of probability" – Philosopher of science

In practice, ANC considers that accountancy is not an exact science, and it is the reason why standards should remain principles based. Hence, in our view we believe that when we use IFRS standards we are, based on Karl Popper's view, referring to a degree of belief and that we are assessing the propensity for an event to occur, such propensity usually being measured using percentages[3] to determine the likelihood.

The ANC has already stated in the ED 2015/03 on the Conceptual Framework that *"In addition, uncertainty, even when considered with respect to reliability, is not limited to measurement uncertainty: paragraph 5.15 refers to the existence of uncertainty whilst paragraph 6.56 refers to outcome uncertainty. Therefore, it would have been useful had the IASB provided a general discussion in the ED on uncertainty (for definition, recognition and measurement purposes), instead of limiting uncertainty to measurement aspects."*[4]

As a conclusion, ANC considers that the definition of likelihood should be reviewed in order to ensure all IFRS jurisdictions agree on the meaning of the term and homogeneously apply it.

ANC also considers crucial that definitions remain principles based, giving the priority to a methodological approach with examples rather than introducing percentages or thresholds.

(ii) Streamline and articulate likelihood related words used

As a second step and in practice, ANC believes it is necessary to:

- Identify all likelihood-related terms used in the set of IFRS standards,
- Determine if likelihood-related concepts apply differently depending on the nature of the underlying assets and liabilities.

Based on this review, and in order to provide relevant and reliable financial information, ANC considers that IASB Board members will have to determine if they consider it is useful to develop a full range of likelihood sub-definitions in order to customize each term identified to the needs of type of asset and liabilities, or situations considered.

(2) Comments on recommendation (d) – Revision of the Conceptual Framework on neutrality (and prudence)

ANC fully supports the recommendation presented in paragraph (d). This recommendation is congruent with the ANC's December 2015 comment letter to the IASB on the 2015/03 Conceptual framework ED.

3 According to Karl Popper's view on probability – One of the key philosopher of sciences of the XXth century
4 ANC Comment Letter 2015/03 Conceptual Framework
http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/Normes%20internationales/IASB/2015/Lettre%20à%20M.%20HANS%20HOOGERVORST%20-%20EXPOSURE%20DAFT%20ED%202015-3.pdf

Based on the comments raised by ANC's stakeholders during working sessions on the Conceptual Framework 2015 ED[5], it appears that *"As for EFRAG, ANC considers that prudence represents a degree of caution that generally recognizes downside risks and strongly questions whether upside potential inherent in uncertain future events should be recognized. This, in our view, implies to acknowledge that prudence plays a larger role than that proposed by the IASB in the ED. We consider therefore that prudence plays a role in the recognition criteria for assets and liabilities and results most of the time in asymmetrical recognition criteria as per our general statement above. This is evidenced in the individual standards, up to the latest standards issued (IFRS 15 and IFRS 9). In addition we note that, even in the proposed ED, there are some areas where asymmetry is informally recognized:*

- *Paragraph 4.25 and 4.26 on the definition of a liability,*
- *Paragraph 4.41 on executory contracts"*

"As a conclusion, it would be more helpful to better articulate the concept of prudence separately with the reintroduction of the notion of asymmetry"

As a conclusion, based on field experience in France and in light of the KASB and AASB study, ANC reinforces its 2015 comment and considers that the IASB should clearly have in mind the natural professional bias that affect preparers and auditors decisions when assessing likelihood (which includes a kind of "conservatism" when applying this concept). Such professional practice shared by accounting professionals worldwide should be taken into consideration when re-deliberations on the conceptual framework take place.

(3) Comment on recommendation (e) - Monitor the translation process and interpretation issues in the different jurisdiction

ANC supports the recommendation stating that the IASB should "seek to obtain input on translation and interpretation issues in different jurisdictions". ANC underlines the fact that aside from an apparent language unity between the countries using the same official language, distortions exist from one country to the other in the use and meaning of some words. As a matter of example words can have a different meaning in Canadian French, in Belgium French, in African countries French and in French from France. Indeed, words bear with them a set of underlying and unformulated meanings. Hence, local cultures, beliefs may affect the understanding of a concept/ principle / word as well as the way a word is translated.

Therefore, ANC highlights the fact that translations need to be carefully performed, notably for languages recognized as national and official language in different countries (as for instance Spanish, French, Portuguese…).

This comment also applies to countries using IFRS standards in English whether because they are English speakers whether because they consider it is easier to directly work on the documents

5 ANC Comment Letter on the 2015/03 ED on the Conceptual Framework
http://www.anc.gouv.fr/files/live/sites/anc/files/contributed/Normes%20internationales/IASB/2015/Lettre%20à%20M.%20HANS%20HOOGERVORST%20-%20EXPOSURE%20DAFT%20ED%202015-3.pdf

published in English. It must be noted that English as for all other languages, can be differently used and understood across the world, and this understanding also depends on the level of expertise in English of each IFRS' user.

Even if IFRS were written in relatively simple English, refined nuances of some concepts or words may not be clearly and correctly understood by stakeholders that do not fully master the language.

(4) Warning – Finding the right balance between additional guidance and principle based standards

ANC agrees with the fact that increasing the number of examples in the standards and developing guidance on how to use the terms of likelihood might be helpful to preparers and auditors.

However, ANC wants to underline the limits of this approach and raises the following warnings:

- As first recommendation, all IFRS standards need to remain principles based and judgmental approaches should not be driven by examples or situations presented in the guidance. Interpretational conflicts may in some instances arise between the standard and the non-authoritative guidance leading whether to additional divergence in the application of the standard or on rules based accounting practice. However, ANC agrees that finding the right balance will be difficult to reach.
- In addition and as already experienced with some other standards, examples provided are often relatively simple and in some cases even too simple to be analogized with a real life situation.

As a conclusion, ANC believes that a right balance need to found between a more detailed approach and a principle based approach.

Actually, ANC considers that the methodology and reasoning permitting to determine the likelihood of an event should be described in order to ensure the same approach is applied in different countries. For instance, the standard could help distinguishing situations where the event is isolated from situations where the event can be analysed as regards past experience.

(5) ANC additional recommendation – Developing a cross-standard glossary (also answers question 2)

In addition and as first and quick remediation solution, the ANC recommends that a general glossary of "defined terms" is developed in order to centralize the words and concepts used across the set of standards proposing clear and homogeneous definitions.

ANC also points out that other terms remain ambiguous when translated into foreign languages such as stewardship, substance over form, business model, "fair" of the fair value model…

Question 2 – Other comments

2. Are there any comments you would like to make in regard to (a) terms of likelihood or other key terms in IFRS and (b) use of language in IFRS generally?

Comments on the cultural bias existing when using IFRS standards or translating them

In our views, one of the main merits of this study is to underline the difficulties the IASB and IFRS Foundation will have to face when developing a "single set of global financial standards" to be applied around the world.

> *"The goal of the IASB and the IFRS Foundation is to develop a single set of global financial reporting standards that bring transparency, accountability and efficiency to financial markets around the world."… "This goal was reaffirmed by the IFRS Foundation Trustees in their 2012 strategy report. [6]"*

ANC believes that one of the key question IFRS standards will have to face is how to deal with the intercultural differences in order to ensure IFRS are consistently applied worldwide, providing transparent and comparable financial information. The question evidenced as regard likelihood interpretation is not limited to the use and translation of that specific word, but is a wider question that affects all IFRS standards' key words. ANC points out the fact that cultural diversity is a key parameter that affect the way IFRS standards are understood and applied. Hence, such diversity should be taken into consideration when aiming at developing a single set of accounting standards to be applied across the world.

This comment is based on the paragraph 2 of the Charter of the United Nations[7] acknowledging the existence of diversity around the world such as *"…race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status."*. In other words, and in a more anthropological approach these criteria have, according to the philosopher and essayist B. Rizk[8] been synthesized into four basic key parameters *"religion, race, language and moral code"* , which refer to parameters already developed about 2500 years ago by Herodotus. The key anthropological message is that those parameters are even more prominent in a context of globalization as they keep on structuring the identity and the way of thinking of each group of individuals, impacting behaviors and concepts and theories' interpretations.

In addition, and as regards the specific language parameter, the twentieth century cognitive psychology developments partly resulting from the nineteenth century philosopher W. von

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6 The global reach of IFRS is expanding - 02 September 2015 - By Paul Pacter *Paul Pacter, PhD, CPA (inactive), is a former member of the IASB and currently manages the IFRS Foundation's study of IFRS use around the world. From 1973 to 2010 he was a staff member of the FASB, the IASC and the IASB. He is also a member of the CPA Journal Editorial Board. This is adapted from an article by Pacter, which first appeared in the CPA Journal in July 2015.*
http://www.ifrs.org/Features/Pages/Global-reach-of-IFRS-is-expanding.aspx

7 Universal Declaration of Human Rights
http://www.ohchr.org/EN/UDHR/Documents/UDHR_Translations/eng.pdf
8 "The Parameters of Herodotus, or Collective Cultural Identities" (published in French), 2009, Les éditions L'Orient-Le jour - *B. Rizk is an essayist, lawyer, professor, and cultural attach to the permanent delegation of Lebanon to UNESCO in Paris.*

Humbolt's theories, evidenced that individuals' thoughts and thinking are in some ways structured by the language used.

The effects of cultural diversity on IFRS standards accounting practice

Applied to the specific field of accountancy and IFRS standards, some of the cultural parameters identified are more relevant than others. However, religion, language and moral code (taken in its larger sense) remain key affecting accounting judgments performed and representing natural bias impacting financial statements reliance and comparability. Therefore, it is clear that the language and interpretation issue raised when analyzing the way the term "likelihood" is interpreted in different cultures, is actually a much wider issue and should be generalized.

In ANC views we believe that cultural bias and interpretation issues arise each time judgments need to be exercised when IFRS standards are applied in a context of uncertainty or need to be interpreted.

As IFRS are principle based, exercising the professional judgment is often required and is a central step of the financial statements process, or of IFRS' interpretation when accounting for complex or specific transactions. In practice, judgments exercised are cultural constructs relying more specifically on language, accounting practice, economic and legal environment; and even in some countries on religious frameworks and beliefs, notably when religion is part of the Law.

Below a few examples are presented:

Discussions relating to "substance over form"

- The legal economical and legal environment may require to structure transactions and to develop complex financial tools to reach the same economic effects across the world, raising uncertainty and interpretational issues as the referential used is not directly applicable to the cultural context. For instance, we can note that the type of trust that exists in anglo-american law do not match as described the "continental" law (for instance in France) legal environment. Therefore, sets of contracts identified as "synthetic trusts[9]" have to be developed to approximate the same economic effects. For instance, applying the control principle and the example provided in IFRS 10 standard raises interpretation and application issues (as the standard mostly relies on REITs examples). As economic effects are identical, accountants need to interpret and supplement the standard to find the way to account for the transaction and to evidence in Financial Statements the economic and legal reality.
- Another example is that the IFRS IC had to face in 2014-2015 a debate on how to apply "substance over form" to IFRS 11 joint ventures. The question arose due to the fact that some accounting professionals were considering that the term "substance" was referring to the economic substance whatever the legal form (e.g. some accounting professionals in France). The IFRS IC evidenced that we are referring to the legal substance of a transaction,

[9] We identify as « synthetic trusts » sets of contracts which objective is to reach the same economic effects under French law than the trusts defined by Law in anglo-american countries.

but this interpretation was not straight forward as the accounting practice have, in the previous decade and in some non-English speaking countries differently defined the meaning of this principle.

- In addition, we cannot set aside the issues raised by countries having to apply Islamic Finance, this latest relying on a very different vision of the world and finance. The last decade debates notably evidenced that countries applying Islamic finance may differently understand and experience IFRS concepts (such as for instance, the substance over form principle).

Interpretations across countries and amongst the different types of IFRS' users

- Within a country, interpretational divergences exist depending on how each individual or each group monitors uncertainty and business/professional risks. The interpretational differences between auditors and preparers basically result from the existing divergence between their objectives and risks when preparing or issuing an unqualified report on financial statements. This divergence of views often results in auditors being more conservative than preparers.
- Across the world, the level of risk preparers or auditors accept to take when interpreting standards in a context of uncertainty differ, depending on the legal context and more specifically on sanctions that could be taken by the regulator or the auditors' supervisor in case of misinterpretation.

These two examples evidence that within a country and across the world, each individual or group of individual understand concepts under its own prism, distorting in some instances what the IASB was initially meaning.

Conclusion

In a context where the IASB and the IFRS Foundation are developing a single set of IFRS standards to be applied around the world, ANC considers that the main difficulty is to issue principles and standards homogeneously understood and implemented. To reach this objective, IASB should rely on a process acknowledging and taking into account the underlying requirements and limits of cultural identities. In our view and in practice, the bias resulting from cultural diversity between the IFRS Foundation constituent should anticipated and integrated. Such approach should help reaching a single set of IFRS standards homogeneously understood and applied around the world. In our view, such cultural bias has to be considered from inception and all levels such as:

- At research level
- At staff level (when preparing agenda papers, exposure drafts and standards)
- At Board's or IFRS IC's meetings…

As a conclusion, ANC believes that when developing IFRS standards, the international standard setter should take into considerations the different parameters presented and should also rely on research (including linguistic, anthropology, psychology… aspects) as well as local field tests, studies, and quality reviews in order to assess how words and concepts are locally used and understood.

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Berlin, 2 June 2016

CC:
Australian Accounting Standards Board
Ms Kris Peach, CEO and Chairman

Dear Youngmi,

Re: Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia
-Key recommendations-

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the above mentioned key recommendations derived by the KASB and the AASB based on the research taken on Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia.

Overall, we support taking up the subject for further exploration. Whilst we agree with the observations made and are facing comparable issues in Germany (e.g. “probable” and “likely” have the same meaning in German), this does not necessarily mean that significant diversity in accounting outcomes result from it. Even though the key recommendations include the statement that “there may be situations in which [different interpretations of terms of likelihood] could be expected to give rise to material differences between financial statements,” we think this issue has not yet been explored suffiently in the research. We therefore encourage the KASB and the AASB to address those practical impacts in more detail in any future steps of the research.

Please find our detailed comments on the key recommendations in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Thomas Schmotz or me.

Yours sincerely,

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Appendix – Comments on key recommendations

Recommendation (a)
Standard setters should give considerable attention to how terms of likelihood might be interpreted and translated in different jurisdictions when developing a standard, particularly since there may be situations in which this could be expected to give rise to material differences between financial statements.

In our opinion, standardsetters, when drafting accounting standards, should carefully consider and take note that terms of likelihood can have different meanings in different languages. To that end, we fully concur with the KASB's and AASB's recommendation. However, even though we consider the presumption that different interpretations of terms of likelihood may give rise to material diversity in accounting practice to be plausible, we think that this needs to be explored further and be supported by real-life cases.

To demonstrate: Although standard-setters have used an array of different terms, which, as your research seems to suggest, may have been understood differently in different countries, we fail to see that the feedback obtained for your respective countries would have lead to *different accounting consequences*. We believe that standard-setters, while using different terminology, have (implicitly) thought in broader buckets rather than a continuum of different probability levels, perhaps to single out extreme cases. Generally, most accounting standards foresee a dichotomous on-off switch, where a certain condition is either met or not met. For instance,

- The threshold for recognising a provision per IAS 37 is set at "more likely than not", thus causing two 50% buckets; or
- The threshold for being allowed to use hedge accounting per IAS 39 was set at 80%, leading to an 80% and a 20% bucket.

Considering just these two cases, it would not matter whether "likely" was attributed a 55%, 60% or even 70% probability by respondents, as all would have led to the same accounting outcome. Hence, we suggest focussing your research on those cases where the probability assignment in two countries really lead to differences in accounting outcomes *because* a threshold set by accounting standard-setters exists in between these probabilities.

Lastly, whilst we concur with the recommendation to reduce the number of terms meaning similar things, we have doubts whether it would really be possible to single out English terms for which an equivalent, adequate and stylistically appropriate term exists in each and every language.

Recommendation (b)
Standard setters should narrow the number of different terms of likelihood used in standards and consideration should be given to establishing a set of terms. Unless the intended levels of likelihood are significantly different from each other, standard setters should use the same terms of likelihood in standards; some of the approaches employed in this research project could be considered for reference.

As said on the previous page, we agree with the recommendation that standard setters should reduce the number of different terms of likelihood used in standards. A good starting point may be to define a certain number of probability clusters/intervals and to assign specific probability ranges to these intervals. However, in order to maintain principles-based accounting standard setting, the clusters should be described qualitiatively and be assigned the terms of likelihood. Numbers, and percentages in particular, should only be used for indicative purposes, if at all.

Recommendation (c)
Consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards. The guidance could include examples.

We agree that principles and guidance on terms of likelihood should be developed; however, they should not (or at least not predominantly) be defined numerically, see our answer on recommendation (b) above. Even if certain numerical indicators were to accompany such definitions, standardsetters should always be aware of the risk of those numerical indicators being understood as bright lines and thresholds. Accounting assessments shall always allow for a degree of judgement, which could become void by fixed and binding thresholds even if they are not meant to be fixed and binding.

Recommendation (d)
The IASB's re-deliberations on revisions to the Conceptual Framework relating to neutrality (and prudence) and the asset and liability recognition criteria might be informed by the knowledge that many preparers and auditors factor in their own level of 'conservatism' when applying IFRS.

We agree. The IASB should clarify to which extent judgement is required.

Recommendation (e)
Standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.

We strongly agree. The explicit consideration of linguistic aspects in consultative documents, such as Discussion Papers, Exposure Drafts or Draft Interpretations, is essential to identify possible sources of misinterpretation causing inconsistent application at an early stage of standard setting. We would recommend to attract the constituents' attention by targeted questions such as "*Are you aware of any translation issues this amendment/pronouncement might cause? Are you aware on any interpretative guidance in your jurisdiction that exists on this issue?*"

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