



Summary of Preliminary Analyses

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

- 1 In August 2015, the Australian Accounting Standards Board (AASB) and the Korea Accounting Standards Board (KASB) jointly commenced a research project titled ‘*Accounting Judgments on Terms of Likelihood in IFRS: Korea and Australia*’.
- 2 The objectives of this research are:
 - (a) to investigate whether there are differences in the ways that preparers and auditors in Korea and Australia interpret terms of likelihood;
 - (b) to investigate whether translation of terms of likelihood from English to Korean are consistent with the intended expressions; and
 - (c) to identify findings that highlight possible improvements that could be made to the standard-setting process to help achieve the objective of global standards.
- 3 A questionnaire was developed by AASB and KASB staff and sent out to auditors and preparers in Australia and Korea. To date, 197 Australians (77 auditors and 120 preparers) responded to the survey instrument in English and 464 Koreans (185 auditors and 59 preparers for Korean version; 139 auditors and 81 preparers for English version) responded to the survey in Korean¹.
- 4 The survey addressed 14 terms of likelihood used in IFRS which relate to a level of probability of a transaction or event occurring². 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%.
- 5 The survey consists of a section that requires respondents to give their opinions on terms of likelihood “in isolation” and a section that requires respondents to give their opinion on terms of likelihood by reference to a specific accounting context from IFRS. The survey also collects data about the backgrounds of respondents.
- 6 Preliminary analyses were conducted and presented in the Asian-Oceania Standard-Setters Group (AOSSG) meeting and the Accounting Standards Advisory Forum (ASAF) in November and December 2015.

¹ In Australia, the survey instrument was only available in English. In Korea, one survey instrument was made available in English and another in Korean. All the survey instruments in English and Korean have the same content.

² <http://tillion.co.kr/survey/?pid=S99284256&grpId=TO&resId=0&vcIdx=1>

- 7 Based on the preliminary analyses of the survey feedback to date, the key findings are:
- (a) there are differences in interpretation of terms of likelihood between Australian and Korean accounting professionals when used in context and not in context;
 - (b) some terms could be interpreted differently in different contexts; For example, respondents tend to be more conservative when interpreting the term “probably” in the context of liabilities in comparison to interpreting the term in the context of assets;
 - (c) some terms of likelihood are not interpreted differently from each other, for example “unlikely” and “highly unlikely”;
 - (d) 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
 - (e) 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”.
- 8 Drawing from the preliminary findings, the key tentative recommendations 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 set of terms that can only be departed from in exceptional cases;
 - (c) if a set of ‘accepted’ terms of likelihood were to be developed, the process should include consulting with specialist linguists who have familiarity with IFRS;
 - (d) consideration should be given to developing principles and guidance on terms of likelihood that could be applied consistently across the standards;
 - (e) 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
 - (f) standard-setting outreach and consultative processes should explicitly seek to obtain input on translation and interpretation issues in different jurisdictions.
- 9 As the project will involve collecting further data and conducting further analyses, the preliminary findings are tentative at this stage. A final research report is tentatively to be completed in early 2016.
- 10 To finalize the project, we are aiming to have at least 100 Australian auditors responding to the survey. The survey instrument is currently available at the following link:

<http://tillion.co.kr/survey/?pid=S99284256&grpId=TO&resId=0&vcIdx=1>.

If you have relevant thoughts on the research project on terms of likelihood in IFRS that you would like to share with the AASB, please email Eric Lee standard@asb.gov.au

This paper had been prepared by staff of the AASB and KASB. The views expressed in this paper reflect the individual views of authors and not those of the AASB or KASB.