

A large, abstract graphic of a network or globe made of blue cubes and connecting lines is positioned in the upper right background. The cubes are arranged in a spherical pattern, and the lines connect them, creating a complex, interconnected structure.

# Korea (South)

## Accounting

FUNDS AND FUND MANAGEMENT 2009

### 1.1 Requirement to produce financial statements

#### Requirement to maintain the books and records in the local jurisdiction

According to Statements of Korea Accounting Standards (SKAS) No. 103 Indirect Investment Fund, Korea authorized funds are required to maintain books and records. The financial statements are comprised of balance sheet, income statement, statement of changes in retained earnings, statement of cash flow, and notes. However, statement of cash flow may not be prepared if certain requirements are met. (For further details, refer to below 1.5 Contents of financial statements)

#### Production of financial statements by collective investment funds

A financial investment firm must prepare each business report for three months, six months, nine months, and 12 months, respectively, from the date of the commencement of every business year. The firm must also file such business reports with the Financial Supervisory Service within the period prescribed by the Presidential Decree up to 45 days after the expiration of each report period.

Also, the financial investment firm must keep its disclosure documents which include material matters extracted from the business reports at its head office, branches, or other business offices for one year from the date on which the business reports under the first paragraph are filed with the Financial Supervisory Service, and make them available to the public through the internet Web site, etc.

#### Choice of period/year-end for collective investment funds

According to Statements of Korea Accounting Standards (SKAS) No. 103 Indirect Investment Fund, when preparing the financial statements of the investment trust, the accounting period follows the period specified in the investment trust agreement. However, if the period exceeds one year, one-year period is applied.

### Requirements for comparatives

According to Statements of Korea Accounting Standards (SKAS) No. 103 Indirect Investment Fund, to promote comparativeness, comparison of the current period financial statements with that of the previous accounting period is required. In addition, if non-quantitative information from the previous period is necessary to understand the current period financial statements, the comparison of the corresponding information must be included in the notes.

### Restrictions on the currency under which financial statements must be prepared

According to the corresponding personnel in Financial Supervisory Service and Korea Accounting Standards, financial statements need to be prepared in the reporting currency, Korean Won.

### Accounting publications specific to the funds industry (as issued by accounting bodies or the regulator)

The accounting publications of Korea Authorized Funds must be in compliance with the generally accepted accounting principles in the Republic of Korea.

- Korea Accounting Standards Board was established to independently set, revise, and interpret accounting standards to improve the quality of the Korea accounting standards and to fit Korean economic circumstances.

The publications must also comply specifically with Statements of Korea Accounting Standards (SKAS) No. 103, Indirect Investment Fund.

- Korea Accounting Institute was established to protect the interested parties and contribute to the development of business enterprises primarily by enhancing relevance, reliability, and comparability of accounting information, and also by engaging in accounting standard-setting activities and by conducting researches in accounting and audit issues.

### Use of short-form accounts

There are no provisions for in legislation for short-form accounts.

### Requirement to prepare a short report

According to the Capital Market and Financial Investment Act, short form investment prospectus is defined as a document, an electronic document, or any other similar description or representation, by omitting a part of mandatory descriptions of the investment prospectus or making an abstract of important descriptions. Short-form investment prospectus may be used after the relevant registration statement is accepted, in a manner prescribed by Presidential

Decree, through an investment, a notice, or a leaflet via newspapers, broadcasting, magazines, or an electronic transmission medium.

According to the Enforcement Decree of the Financial Investment Services and Capital Market Act, a simple prospectus must not omit any information unfavorable to the firm or must not extract only information favorable to the firm.

### Umbrella schemes

Umbrella scheme shall have a collective investment agreement applicable in common to a multiple number of collective investment schemes. According to the corresponding personnel in Financial Supervisory Service, financial statements need to be produced for each authorized sub-fund.

## 1.2 Requirement to audit financial statements

A collective investment manager of an investment trust or investment undisclosed association, or an investment company, etc. must, when it conducts accounting of the collective investment property, comply with the accounting standards established and publicized by the Financial Supervisory Service.

A collective investment manager of an investment trust or investment undisclosed association, or an investment company, etc. must be subject to an audit of the collective investment property by an accounting auditor within two months from the last day of the accounting period and the day falling under each of the following subparagraphs: Provided, that the same shall not apply to cases prescribed by the Presidential Decree as unlikely to undermine the interests of investors.

- In case of the termination or cancellation of the contract period, its termination date or cancellation date; and
- In case of the expiration of the existence period or dissolution, its expiration date or dissolution date.

## 1.3 Publication of financial statements

A collective investment manager of an investment trust or investment undisclosed association, or an investment company, etc. must keep the statements falling under each of the following at the head office and send them to a broker or dealer that has sold the collective investment securities so that the statements are kept at its business offices:

- settlement statements;
- audit report;

- minutes of the general meeting of collective investors; and
- minutes of the meeting of the board of directors (limited to an investment company).

A collective investment manager of an investment trust or undisclosed investment association, or an investment company, etc. as well as a broker or dealer that has sold the collective investment securities must keep the settlement statements and audit report for five years from the date on which it makes them available.

Investors and creditors of a collective investment scheme may have access to the documents kept at any time during business hours, and request certified copies or abridged copies thereof.

### 1.4 Accounting standards

Korea Authorized Funds must follow the accounting principles generally accepted in the Republic of Korea and Statements of Korea Accounting Standards (SKAS) No. 103, Indirect Investment Fund.

SKAS 103 defines the accounting treatment and disclosure of indirect investment funds per the Indirect Investment Asset Management Business Act. In South Korea, the Indirect Investment Asset Management Business Act expired as the Financial Investment Services and Capital Market Act became effective on February 2009. Accordingly, SKAS 103 is currently under revision process and the initial draft will soon be disclosed. Per Korea Accounting Standards Institute, only minor changes will be made.

According to International Financial Reporting Standards (IFRS) Implementation Roadmap which was published on March 2007, all the listed companies are required to implement IFRS. The un-listed companies also have the option to pre-implement IFRS starting 2009. For those unlisted companies that chose not to implement IFRS, separate accounting regulation or revised current corporate standard will be applied. According to Korea Accounting Institute, even after the official IFRS implementation period, SKAS 103 continues to be valid.

### 1.5 Contents of financial statements

According to SKAS No. 103, Indirect Investment Fund, the financial statements of the investment trust is comprised of the following:

- balance sheet
- income statement
- statement of changes in retained earnings
- statement of cash flow

- notes

If the investment trust meets all the below requirement, the statement of cash flow is not required.

- Most of the operating assets are highly liquid. For example, majority of the operating assets are marketable investment securities or are readily securitized through the corresponding market.
- Most of the operating assets are valued with fair market value.
- Liabilities are not significant.

## 1.6 Accounting treatments and disclosures

According to SKAS No. 103, the following information must be disclosed in the notes.

- Compliance of the financial statements of the indirect investment trust with SKAS No. 103
- Summary of the investment trusts that includes the designation of the asset management company or the trustee company
- Accounting treatment that includes the following:
  - Revenue recognition
  - Valuation methodology of the asset
  - Disposition methodology of bonds and debt securities with uncertainty in collection
  - Amount of fees per type of the investment trust, corresponding calculation standard and methodology
  - Amount of early redemption charge and corresponding treatment
  - Net income in comparison with taxable income (Calculated as taxable returns minus taxable expenses)
  - Distribution of proceeds
  - Type of the collateral provided, book value and related debt
  - Detailed transactions of the asset management company and related parties
  - Calculation of standard price

- Details of the operating assets

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.