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IFRS adoption and capital globalization in Korea

Korea Accounting Institute KAI

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Preface

The Korea Accounting Institute (KAI) has carried out, through the Korea Accounting Standards Board (KASB) nested within the KAI, the duty of setting, amending and interpreting the accounting standards of Korea, the duty delegated to the KAI by the Financial Services Commission (FSC) in accordance with the Act on External Audit of Corporations and the Enforcement Decree thereof. Since the adoption of IFRS, the KASB has endeavored to enhance the accounting transparency of Korean entities to the globally acceptable standard and improve Korea's capital market efficiency by playing a pivotal role in promoting successful implementation of IFRS in Korea.

The adoption of full IFRS in 2011 is viewed as a favorable opportunity to add momentum to the globalization of Korea's capital market as it brought about changes not only in the accounting environment of Korea but also in foreign investors' perception of the Korean market. Marking the five years of Korea's IFRS adoption, the KASB commissioned a research team consisting of Bong-Hee Han, Professor at Ajou University, Jae-Kyung Lee, Professor at Kukmin University, Il-Hong Park, Senior Technical Manager at KASB, and Youngmi Seo, Technical Manager at KASB to carry out a research project on the effect of IFRS adoption on capital globalization. In order to effectively identify the effect of IFRS adoption on capital globalization from multiple angles, the research project included in-depth interviews and surveys of accounting or finance managers/executives of the domestic firms which listed their shares or issued their bonds overseas, managers/executives providing overseas deal services of domestic Big 4 accounting firms, and accounting or finance managers/executives of the domestic branches of foreign banks.

This paper is available on the website of the KASB (www.kasb.or.kr) and if you have any comments on the paper, please send them to us by mail or email at webmaster@kasb.or.kr. We appreciate your input on this publication and will reflect your comments in the policies on promoting successful implementation of IFRS to the extent possible.

Lastly, please note that the views express in this paper are those of the researchers specified above and do not necessarily represent the official views of the KAI or KASB.

I would like to acknowledge and thank all those who were involved in this research for their hard work.

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Jee In Jang, Ph.D.
Chair and CEO
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※ This research report is an English abridgment of a research paper originally written in Korean.

I. Introduction

1. This study investigates whether the usefulness of financial information of Korean firms is enhanced in terms of international comparability, relevance, reliability, quality, economic substance, accessibility, etc., following the full adoption of IFRS in Korea from year 2011.

2. This study also examines whether capital of Korean firms became more globalized, that is, whether international financing of Korean firms increased through their overseas stock listings/bond issuances or foreign M&As of Korean firms, whether the risk of investment in Korean firms decreased, and whether the so called 'Korea Discount' is mitigated, following the IFRS adoption in Korea.

3. In addition, provided that the IFRS adoption in Korea enhanced the usefulness of financial information of Korean firms, this study evaluates whether the enhancement of

usefulness of financial information helps Korean firms to globalize their capital further.

4. At first, this study performed descriptive analyses with the past market data to see if foreign investment in Korean firms, including direct investment, portfolio investment, and M&A, increased and if foreign investment was expanded to a larger set of target Korean firms after the IFRS adoption in Korea.

5. This study was implemented mainly through the analyses on intensive interviews and questionnaire surveys. The subjects of interviews and surveys were accounting or finance managers/executives of the domestic firms which listed their shares or issued their bonds overseas, managers/executives providing overseas deal services of domestic Big 4 accounting firms, and accounting or finance managers/executives of the domestic branches of foreign banks.

6. Intensive face-to-face interviews were conducted to examine any changes in accounting works and systems after the IFRS adoption and any impact of IFRS adoption on overseas stock listing or bond issuance practices of domestic firms, on overseas deal services of domestic Big 4 accounting firms, and on domestic lending and investing activities of foreign banks.

7. Questionnaire surveys were conducted to figure out whether the burden of works in accounting and financial reporting of domestic firms which listed their shares or issued their bonds overseas increased or decreased after the IFRS adoption, whether usefulness of financial information of domestic firms in terms of international comparability, relevance, etc. is enhanced after the IFRS adoption, and whether capital of domestic firms became more globalized after the IFRS adoption.

8. This study is expected to help evaluate whether usefulness of financial information of domestic firms is enhanced from the viewpoint of foreign investors and whether foreign investment in Korean firms increased after the IFRS adoption.

9. This study is also expected to help evaluate whether IFRS adoption helps Korean firms to obtain better access to overseas capital markets, and consequently whether international financing such as overseas stock listings/bond issuances or foreign M&As increased after the IFRS adoption.

II. Prior Studies

2.1. IFRS adoption and enhancement of the quality and transparency of financial information

10. The adoption of a single set of accounting standards named IFRS across borders is expected to enhance comparability of financial statements among firms around the world. Since IFRS aims for a rigorous and sophisticated set of accounting standards compared to individual GAAPs of each country, IFRS adoption is anticipated to enhance the quality and transparency of financial information of firms around the globe.

11. There exist a number of international and Korean studies which investigated the effect of IFRS adoption on the quality and transparency of financial information of firms. International studies were mostly carried out with the data of the firms in Europe

following its adoption of IFRS in year 2005, and Korean studies with the data of Korean firms following its adoption of IFRS in year 2011. These studies can be categorized into three groups as below.

12. The first group of studies examined the change in accuracy of financial analysts' earnings forecasts as evidence for improvement of the quality and transparency of financial information after IFRS adoption. Most of these studies reported an increase in accuracy of financial analysts' earnings forecasts, supporting the argument that the quality and transparency of financial information have improved following IFRS adoption.

13. The second group of studies investigated the change in value-relevance of financial information as evidence for enhancement of the quality and transparency of financial information after IFRS adoption. Value-relevance was measured based on the

association between accounting numbers and stock price. Most of the international studies documented an increase in value relevance, supporting the assertion that the quality and transparency of financial information have been enhanced following IFRS adoption. Korean studies, on the other hand, provided confounding results.

14. The last group of studies tested whether the quality of financial information improved after IFRS adoption in terms of income smoothing, earnings persistence, relevance and timeliness in loss recognition. Overall, these studies provided conflicting results to one another.

2.2. IFRS adoption and increase in cross-border investments

15. As IFRS is adopted globally, investors can now get better access to and have better understanding of the financial information of firms in other countries prepared under the same accounting standards. This would help mitigate the adverse selection problem, leading

to efficient resource allocations with increase in cross-border investments in the global capital market.

16. A line of studies examined whether FDI (foreign direct investments) increased among the European countries which adopted IFRS since year 2005. Most of these studies provide evidence that FDI indeed increased after IFRS adoption. Another line of studies investigated whether foreign portfolio investments increased in the (mostly European) countries which adopted IFRS. Most of these studies also reported positive results supporting the increase in foreign portfolio investments.

III. Capital globalization of Korean firms

17. The typical ways of international financing for Korean firms are: (1) listing their DRs (Depository Receipts) on foreign exchanges; (2) issuing bonds denominated in foreign currency overseas; and (3) borrowing from foreign financial institutions. In this report, we review the current status of international financing of Korean firms before examining the effect of IFRS adoption thereon.

3.1. Overseas stock listings of Korean firms

18. Current status

18.1. Samsung C&T is the first company which listed its Depository Receipts (DR) on the London Stock Exchange (LSE) in 1995. At present, 36 Korean firms listed their DRs on NYSE, NASDAQ, LSE, the Luxembourg Stock Exchange, the Singapore Exchange, etc.

18.2. Two Korean firms, Gravity and Pixelplus directly listed their shares on NASDAQ in 2005. In 2009, however, Pixelplus was delisted from NASDAQ and is now listed on KOSDAQ.

18.3. Out of the 36 Korean firms, 23 firms received equity financing by issuing DRs in foreign markets, but the remaining 13 firms listed their DRs just for the purpose of trading in foreign exchanges.

18.4. The financial agencies which issued DRs for Korean firms are JP Morgan Chase Bank, City Bank, Bank of New York Mellon, and Deutsche Bank.

18.5. The number of Korean firms which issued DRs in foreign markets peaked at 45 firms in 2011. But since then, the number kept decreasing as firms voluntarily opted to delist their DRs, probably because the benefits of overseas listing faded as directly making foreign investments in shares of Korean firms became possible through the internet.

19. Requirements of the US Stock Exchange for accounting information

19.1. Listed firms should satisfy the general listing requirements of SEC in accordance with the US securities law, and thus all accounting information submitted should conform to US-GAAP. However, fulfilling the general requirements of SEC is costly and burdensome.

19.2. Exceptions to these requirements are the Reg. S (Regulation S of Securities Act) applicable to listings out of the US, and the Rule 114A applicable to stock trade among Qualified Institutional Buyers in the US.

19.3. POSCO, KEPCO, SK Telecom, KT, KB Financial Group, Shinhan Financial Group, Wooribank, LG Display, and Webzen are the nine Korean firms which listed their

DRs on the US Stock Exchange. They were bound by the general SEC requirements and thus reported financial statements in conformity with US-GAAP prior to Korea's IFRS adoption. Since the adoption, however, financial statements prepared under K-IFRS are submitted without material modifications.

19.4. Gravity, which chose direct listing in NASDAQ, remains unlisted in the Korean Stock Exchange. Thus, instead of following IFRS, it simply applies Korean local GAAP allowed for non-listed firms when filing financial statements in Korea.

19.5. Other Korean firms with their DRs listed were under the Reg S or the Rule 114A, and thus were not required to prepare financial statements in conformity with US-GAAP.

20. Requirements of the London Stock Exchange (LSE) for accounting information

20.1. LSE consists of the Main Market and the Professional Securities Market (PSM). To be listed in the Main Market, financial statements should be prepared in conformity with IFRS.

20.2. To be listed in PSM, conformity with IFRS is not required. It is accepted to translate in English the financial statements audited in the country where the original stock is listed.

20.3. Since Korean GAAP was accepted as the equivalent of IFRS in 2008, even the Korean firms which listed its DRs in the Main Market were no longer required to convert their financial statements in conformity with IFRS.

20.4. Thus, all Korean firms whose DRs are listed on LSE reported their Korean financial statements translated in English both before and after the IFRS adoption. They are Samsung C&T, Hyundai Motor, Samsung Electronics, LG Chem, LG Electronics, Kumho Tire, Lotte Shopping, Macquarie Korea Infrastructure Fund, Hana Tour, Daishin Securities, etc.

21. Requirements of the Luxembourg Stock Exchange for accounting information

21.1. The Luxembourg Stock Exchange consists of the Bourse de Luxembourg and Luxembourg Euro-MTF. The listing requirements of the Bourse de Luxembourg are stricter than those of the Luxembourg EURO-MTF because listing in the Bourse de Luxembourg enables trading across the entire EU capital market, whereas listing in the Luxembourg EURO-MTF does not allow trading in other European market without separate permission.

21.2. Samsung SDI was listed in the Luxembourg Stock Exchange in 1999, for the first time as a Korean firm. Later Hyundai Steel, KCC, Daewoo SME, Industrial Bank of Korea, SK Hynix, etc. listed their DRs on the Bourse de Luxembourg and KT&G on the EURO-MTF.

21.3. Since Korean GAAP was accepted as the equivalent of IFRS as it was in LSE, all Korean firms which listed their DRs on the Luxembourg Stock Exchange reported their Korean financial statements translated in English without any conversion both before and after the IFRS adoption.

22. Requirements of the Singapore Exchange (SGX) for accounting information

22.1. In SGX, SDR (Singapore DR) and GDR (Global DR) are traded, but the price information is provided only for ADR (American DR).

22.2. SDR can be listed in the Mainboard or the Catalist of SGX-ST. Listing on SGX-ST requires the conformity with US-GAAP, IFRS or Singapore Financial

Standards (SFRS) in reporting financial statements.

22.3. GDR is for stocks primarily listed in other countries. GDR can be listed in the Mainboard, but can be traded only in the OTC. For GDR, financial statements can be prepared under US-GAAP, SFRS, or the GAAP of the country where its original stock is listed.

22.4. OCI, Youngone, and Kolao Holdings listed GDRs in SGX, and they reported their Korean financial statements translated in English both before and after the IFRS adoption.

3.2. Overseas bond issuances and borrowings

23. (Overseas bond issuances) Overseas bond market is bigger than overseas stock market in size. Bonds are issued by the public sector such as governmental agencies and central banks, or the private sector such as financial institutions and corporations.

23.1. The balance of bonds issued overseas was $61 billion at the end of 2005, but it increased 3.6 times to $221.8 billion at the end of 2014. The portion issued by the private sector was 88% of the total in 2005, but it decreased to 57% in 2014.

23.2. The balance of bonds issued overseas by the private sector was $126.4 billion at the end of 2014, which were denominated mostly in U.S. dollar, but partly in Yen, Yuan, Riggit, or Bhat. Most of overseas bonds were registered in the Singapore Exchange.

23.3. Ordinary overseas bonds were issued by large corporations or financial institutions with high credit, whereas special types of bonds such as convertible bonds, exchangeable bonds, or bonds with stock warrants were issued by companies without high credit or for some special purposes.

23.4. Overseas bonds were registered in foreign stock exchanges, but were actually traded in the OTC markets.

23.5. At time of overseas bond issuance, financial statements prepared under Korean GAAP could be attached to the Offering Circular once the Comfort Letter was provided on them by an external CPA. Thus, the IFRS adoption in Korea did not affect accounting works related to overseas bond issuance of Korean firms.

23.6. In overseas bond issuances, it is not the accounting information, but the credit rate given by Standard & Poors, Moody's or Fitch which is critical in determining the proper interest rate. The agencies arrive at the credit rate for a firm with their own standards and formulas.

24. (Overseas borrowings) Korean firms and financial institutions frequently borrow foreign currencies from foreign financial institutions.

The borrowings amounted to $137.1 billion at the end of 2014, larger than overseas bond issuances.

24.1. There are 40 branches of foreign banks in Korea, which include 6 British branches, 5 U.S. and Chinese branches each, and 4 Japanese and French branches each.

24.2. These foreign banks use audited financial statements of Korean firms in their credit and lending decisions, and for such decisions, conversion of the financial statements in conformity with US-GAAP or IFRS is not required.

24.3. However, as consolidated financial statements with international comparability provide more useful information after IFRS adoption, the risk of foreign banks in their credit and lending decisions can be said to be lowered.

3.3. Foreign Investments in Korea

25. (Foreign stock investments) Foreign stock investments in KOSPI (the primary stock exchange market in Korea) and KOSDAQ (the secondary stock exchange market in Korea) are on the rise since the global financial crisis in 2007 and 2008. It is not yet clear whether the IFRS adoption in 2011 markedly increased the level of foreign stock investments in Korea.

    25.1. Foreign stock investments took up 34% of KOSPI, and 11% of KOSDAQ in market capitalization as of the end of 2014.

    25.2. Foreign investors tend to trade stock more actively (in terms of buying and selling volume) both in KOSPI and in KOSDAQ than domestic individuals and institutional investors after the IFRS adoption.

26. (Tendency of foreign stock investments) Foreign stock investments which used to be concentrated in large firms in the past are expanded to include small firms in KOSDAQ particularly after the IFRS adoption.

26.1. Foreign stock investments are consistently made in most of large firms in KOSPI and in KOSDAQ.

26.2. Foreign stock investments in small firms in KOSPI and in KOSDAQ are constantly increasing over time. In particular, foreign investments in small firms with assets less than ₩100 billion markedly increased after 2011, the year of IFRS adoption.

26.3. It seems that foreign investors expanded their investment portfolios to include small firms in KOSDAQ as they could get better access to the financial information of small firms since the IFRS adoption in Korea.

27. (Cross-border M&As) No increasing or decreasing trend was found in cross-border M&As after the IFRS adoption.

27.1. Up to 2008, inbound M&As were greater than outbound M&As in amount. This was reversed from 2009 to 2013, but in 2014, inbound M&As took up the major proportion again.

IV. The effect of IFRS adoption on the usefulness of financial information and capital globalization: empirical evidence

4.1. Intensive interview analysis

28. Intensive interviews were done to investigate the pros and cons of IFRS adoption, and its impact on accounting and business practices. Interviewees were accounting or finance managers/executives of the domestic firms which listed their shares or issued their bonds overseas, overseas deal service managers/executives of domestic Big 4 accounting firms, and lending or investing managers/executives of the domestic branches of foreign banks.

    28.1. In examining the effect of IFRS adoption, firms which listed their shares or issued their bonds overseas are expected to provide the perspective of preparers of financial information, foreign banks the perspective of users of financial information, and Big 4 accounting firms the perspective of an intermediary to link the information preparers and the information users.

28.2. Intensive interviews would provide helpful tips in completing subsequent survey questionnaire.

28.3. Intensive interviews have the advantage of being able to investigate practice details directly from experts.

29. Intensive interviews with the firms which listed their shares or issued their bonds overseas

29.1. Only the firms which issued ADR in NYSE were affected in financial reporting by IFRS adoption. There was no change in financial reporting to those which issued other forms of DRs overseas after the IFRS adoption.

29.2. Intensive interviews were done with KB Financial Group, Shinhan Financial

Group, Wooribank, KT, SK Telecom, and POSCO respectively, of which ADRs are listed and actively traded in NYSE.

29.3. (Preparation of financial statements before IFRS adoption) Financial statements based on K-GAAP were converted in conformity with US-GAAP. For such conversion, ① a separate accounting system was run, ② a separate US-GAAP accounting team was established, or ③ a temporary US-GAAP task force was operated. When a temporary US-GAAP task force was operated, financial statements were converted manually from K-GAAP basis to US-GAAP basis.

29.4. In any case, the US-GAAP conversion cost a firm several billion won per year. Albeit the conversion was costly with no obvious benefits of listing on NYSE, those firms maintained listing from the belief that ① listing on NYSE itself could have the effect of reducing the cost of capital to the extent that its rigorous listing requirements signal the trustworthiness of listed firms, and ② delisting can be costly entailing difficult procedures.

29.5. (After IFRS adoption) The US-GAAP conversion was not required any more. Financial statements prepared under K-IFRS were generally accepted in NYSE, but with minor modifications for some firms (particularly those with a construction segment).

29.6. Since IFRS is complex and voluminous requiring accounting expertise for its proper application, the firms reinforced their accounting teams with more personnel of high qualifications.

29.7. Audit fee increased after the IFRS adoption, but the fee for US-GAAP conversion was saved.

29.8. (Cost of IFRS adoption) It cost a lot (approximately several tens to hundreds of billion won per firm) to build up a unified IFRS accounting system encompassing all consolidated subsidiaries. The cost was particularly high for financial institutions or telecommunication companies with numerous customers.

29.9. (Maintenance cost after IFRS adoption) The cost of conforming to IFRS remained high because:

(a) IFRS is complex requiring costly procedures such as consolidation, fair value measurement, impairment recognition, etc.

(b) Many appraisals and estimations required by IFRS necessitate soliciting expensive opinions of outside experts.

(c) Since IFRS is principle based, consulting with accounting firms increased for complex issues requiring judgements.

(d) onsiderable upgrade of accounting system may be needed as new IFRS standards or amendments of existing standards are issued.

29.10. (Effect of IFRS adoption) IFRS adoption produced several positive effects in practice.

(a) As consolidated financial statements are reported quarterly as the primary financial statements, foreign investors are able to collect timely accounting information.

(b) Top management pays more heed to IFRS since it is a widely accepted set of international standards, and tends to take the effect on consolidated financial statements into consideration at time of their decision makings.

(c) Reliability and international comparability of accounting data are enhanced as IFRS as the single set of authoritative accounting standards is uniformly applied to both domestic and overseas business segments.

(d) Transparency of accounting information is enhanced due to the buildup of a sophisticated accounting IT system and the reinforcement of high-quality accounting personnel upon IFRS adoption, helping to produce more useful accounting information with economic substance.

30. Although IFRS adoption gave no direct effect on the firms which issued bonds overseas in their bond issuance and trading, they share the above general effect of IFRS adoption with the firms which issued DRs overseas.

31. Intensive interviews with the domestic branches of foreign banks revealed that IFRS

adoption had beneficial effect on their lending decisions in general.

31.1. As consolidated financial statements are provided quarterly as the primary financial statements resulting from the IFRS adoption, financial data with international comparability could be obtained in a timely manner, leading to significant improvement of the quality of their analysis.

31.2. In particular, richer information provided in the footnotes under IFRS than under previous K-GAAP is highly beneficial to their analysis and reduces the time spent for their analysis.

31.3. The body of financial statements is also considered to better reflect the economic substance than before.

31.4. However, Korean firms, even large ones, in general tend to be concerned with merely satisfying the accounting standards and official disclosure requirements in preparing the footnotes without giving careful consideration to providing useful information with real economic substance to investors, unlike foreign global peers.

32. Intensive interviews with the overseas deal service teams of Big 4 accounting firms revealed that IFRS adoption helped to enhance the efficiency of cross-border M&A activities involving domestic firms.

32.1. IFRS adoption helped foreign investors to better analyse domestic firms targeted for M&A with the financial information in conformity with the international standards, and thus had the effect of making inbound M&A (M&A of domestic firms by foreign investors) deals easier.

32.2. IFRS adoption also helped domestic firms to process outbound M&A (M&A of foreign firms by domestic investors) deals more rationally by having them consider the economic effect of M&A deals on the entire consolidated entity.

32.3. IFRS adoption would increase the chance that Korean firms are targeted for M&A by foreign investors because foreign investors are in a better position to evaluate Korean firms based on better understanding of the their financial statements in conformity with IFRS. However, it does not necessarily tell that IFRS adoption would boost inbound or outbound M&As of Korean firms.

4.2. Questionnaire survey analysis

33. By fully adopting IFRS for all listed firms in 2011, Korea expected that usefulness of financial information of domestic firms would be enhanced in terms of international comparability, relevance, etc., and the capital of domestic firms would become more globalized through easier access to overseas

capital markets, mitigation of the so called 'Korea Discount', that is, the phenomenon that Korean firms are unduly undervalued in the international market, etc. It is examined via questionnaire surveys how much such expectations were manifested at this point that five years have passed since Korea adopted IFRS.

33.1. Questionnaire surveys were conducted with domestic firms which listed stock or issued bonds overseas, domestic Big 4 accounting firms, and the domestic branches of foreign banks.

33.2. Domestic firms which listed stock or issued bonds overseas were surveyed because they are affected significantly by IFRS adoption in their endeavor to enhance international comparability of their financial reporting in attracting foreign capital. Big 4 accounting firms and the domestic branches of foreign banks were surveyed because they are in a good position to evaluate the effect of IFRS adoption in Korea as users and intermediaries of financial information.

33.3. Survey respondents were 75 persons in total, consisting of 35 accounting or finance managers/executives of the domestic firms which listed stock or issued bonds overseas, 20 overseas deal service managers/executives of domestic Big 4 accounting firms, and 20 lending or investing managers/executives of the domestic branches of foreign banks. Thus, the sample for questionnaire survey analyses is 75 responses.

34. Questionnaire surveys include questions about:

34.1. Whether general accounting work burden increased after IFRS adoption in the firms which listed stock or issued bonds overseas;

34.2. Whether financial documentation and reporting works related to overseas listings, bond issuances or M&As were lightened after IFRS adoption;

34.3. Whether the usefulness of financial information of domestic firms in terms of international comparability, relevance, reliability, quality, etc. was enhanced after IFRS adoption;

34.4. Whether the capital of domestic firms became more globalized from IFRS adoption through ① easier access to overseas capital markets with stock listing, bond issuance or M&A, ② reduction in investment risk in domestic firms, and ③ mitigation of the ‘Korea Discount‘.

35. The results of the survey to the firms which listed stock or issued bonds overseas showed that:

35.1. The amount of general accounting works, their complexity, and time spent on them significantly increased after IFRS adoption.

35.2. The cost incurred and personnel mobilized for accounting works also significantly increased after the IFRS adoption. IFRS adoption had the effect of simplifying financial reporting of the domestic firms which listed stock or issued bonds overseas as the conversion of their financial statements was no longer required. Albeit so, the fact that accounting personnel were reinforced implies that general accounting work burden considerably increased after the IFRS adoption.

35.3. Besides, the firms which listed stock or issued bonds overseas reported that discretionary judgement and outside inquiry or consulting for accounting issues increased significantly after the IFRS adoption. It seems to reflect the difficulties that firms which were used to rule-based accounting standards experience in the process of adapting to principle-based accounting standards.

36. The results of the survey to the firms which listed stock or issued bonds overseas and Big 4 accounting firms showed that:

36.1. The amount of financial documentation and reporting works related to overseas listings, bond issuances or M&As, their complexity, time spent on them, personnel mobilized, and cost did not decrease after the IFRS adoption, but substantially increased on the contrary.

36.2. Although financial reporting was simplified for the domestic firms which listed stock or issued bonds overseas as the conversion of their financial statements was no longer necessary after the IFRS adoption, the fact that the amount of works and time spent on them increased substantially after the IFRS adoption implies that preparing financial statements in conformity with IFRS is complex and difficult in practice.

36.3. Overseas deals for stock listing, bond issuance or M&A became easier, and related decision makings of top management became more expeditious after the IFRS adoption. This supports the argument that IFRS adoption would foster favorable conditions for capital globalization of domestic firms by attracting foreign capital.

37. The results of the survey to the entire sample showed that:

37.1. The usefulness of financial statements of domestic firms was enhanced after the IFRS adoption, especially in terms of international comparability, followed by reliability, quality, understandability, economic substance, relevance, and accessibility, listed in the order of significance.

37.2. Also, IFRS adoption affected positively in reducing investment risk in domestic firms, in mitigating the 'Korea Discount', and in attracting foreign capital via overseas stock listing, bond issuance or M&A.

38. It was found that the usefulness of financial statements of domestic firms was enhanced, and that capital globalization of domestic firms was improved after the IFRS adoption. Thus, a further analysis was carried out to see whether the enhancement of the usefulness of financial statements affected capital globalization of domestic firms after IFRS adoption.

38.1. For this analysis, ordered logit regressions together with OLS regressions were run for each of 3 dependent variables reflecting capital globalization (attraction of foreign capital, reduction of investment risk, and mitigation of the 'Korea Discount'). Each regression has 8 independent variables indicating the attributes of the usefulness of financial statements (international comparability, relevance, reliability, quality, economic substance, understandability, accessibility, and completeness).

38.2. The regression results showed that improvement in accessibility as an attribute of usefulness of financial statements affected significantly all 3 aspects of capital globalization of domestic firms, that is, attraction of foreign capital, reduction of investment risk, and mitigation of the ‘Korea Discount’. In addition, the enhancement of relevance affected attraction of foreign capital, and the enhancement of economic substance affected mitigation of the ‘Korea Discount’.

38.3. In sum, improvement in accessibility of foreign investors to financial statements of domestic firms after IFRS adoption was the most important factor that helps promote capital globalization of domestic firms. Also, the enhancement of relevance and economic substance after IFRS adoption was also found to help promote capital globalization of domestic firms in part.

V. Conclusion

39. Foreign stock investments generally concentrated in large firms in the past expanded and flowed also into small firms (in particular, firms with assets of less than ₩100 billion in KOSDAQ) after the IFRS adoption. It seems that foreign investors enlarged their investment portfolios to include small firms even in KOSDAQ as they could get better access to the financial information of small firms since the IFRS adoption in Korea.

40. Nothing much changed in the practice of international financing of domestic firms through overseas stock listing, bond issuance or borrowing after the IFRS adoption. However, those which listed their ADRs on NYSE definitely benefited from IFRS adoption as they were relieved of the additional works of converting their financial statements in conformity with US-GAAP,

41. Intensive interviews with the firms which listed ADRs on NYSE revealed that:

41.1. Although the amount of accounting works and its cost substantially decreased as the process of converting their financial statements was skipped after the IFRS adoption, the total cost for financial reporting increased overall due to the complexity of principle-based IFRS itself and its application, build-up of a unified accounting system encompassing all consolidated subsidiaries, reinforcement of high-quality accounting personnel, frequent outside consulting for complex issues requiring judgements, etc.

41.2. In management, IFRS adoption seems to have induced the rise of accounting in prominence, more allocation of resources to accounting, and higher utilization of accounting information in decision-making.

42. The results of the questionnaire survey to domestic firms which listed stock or issued bonds overseas, domestic Big 4 accounting firms, and/or the domestic branches of foreign banks showed that:

42.1. The burden of general accounting works (amount, complexity, time spent and cost) significantly increased and accounting personnel were more reinforced after the IFRS adoption.

42.2. Discretionary judgement and outside inquiry or consulting for accounting issues increased significantly after the IFRS adoption, reflecting the difficulties that firms which were used to rule-based accounting standards experience in the process of adapting to principle-based accounting standards.

42.3. Although financial reporting was simplified for the domestic firms which listed stock or issued bonds overseas as the conversion of their financial statements was no longer necessary after the IFRS adoption, the fact that the amount of works and time spent on them increased substantially after the IFRS adoption implies that preparing financial statements in conformity with IFRS became complex and difficult in practice.

42.4. Overseas deals for stock listing, bond issuance or M&A became easier, and related decision makings of top management became more expeditious after the IFRS adoption. This supports the assertion that IFRS adoption would foster favorable conditions for capital globalization of domestic firms by attracting foreign capital.

42.5. The usefulness of financial statements of domestic firms was enhanced after the IFRS adoption, especially in terms of international comparability, followed by reliability, quality, understandability, economic substance, relevance, and accessibility, in the order of significance.

42.6. IFRS adoption affected positively in reducing investment risk in domestic firms, in mitigating the ‘Korea Discount’, and in attracting foreign capital via overseas stock listing, bond issuance or M&A.

43. The results of ordered logit regressions showed that improvement in accessibility of foreign investors to financial statements of domestic firms after IFRS adoption was the most important factor that helps promote capital globalization of domestic firms. It was also found that enhanced relevance and economic substance after IFRS adoption help promote capital globalization of domestic firms in part.

KASB