Recirculation Prohibition of Fair Value through Other Comprehensive Income on Realization and Earnings Management

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〈요 약〉

In accordance with K-IFRS 1109, financial instruments are classified to amortized cost (AC), fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). And disposal gains are prohibited to be recirculated for net income when FVOCI financial instruments would be sold in the future, so-called recirculation prohibition. This research investigates whether accumulated other comprehensive income of available-for sale financial assets(AFS) under K-IFRS 1039, could affect reclassified amounts to the FVPL securities from the AFS securities. Also, this study investigates the effects of the reported income on the reclassified FVPL, because CEOs are likely to try earnings management when net income is predicted to be less than target or is low, comparing other firms. As a result of empirical analysis, first, I find that accumulated other comprehensive income of the AFS has a positive impact on the reclassified FVPL. Second, level of reporting income has no significant impact on the reclassified FVPL. Third, interaction effects are significantly positive on the firms which have more other comprehensive income and less level of reported income. Fourth, the effects of the bank and securities are more distinct than those of the manufactures. This study is the first research to investigate earnings management through AFS at the timing of the first adoption of K-IFRS 1109. Empirical results of this study provide evidence of earnings management on the reclassification of FVPL which gives meaningful implications to regulators, academic researchers and auditors.

Key Words: K-IFRS 1109, Recirculation Prohibition, Earnings Management, Reclassification.

Ⅰ. Introduction

K-IFRS 1109, a new accounting standard on the financial instruments has become effective since the beginning of 2018. Superseding K-IFRS 1039(Financial Instruments: Recognition and Measurement), the new standard has features which are business model to manage financial instruments, recognition and measurement based on contractual cash flow, model of impairment loss based on the expected credit loss method, extent or change of valuation model on financial derivatives.

For 2017, Several firms in Korea, which are mostly banks and other types of financial institutions ('banks' hereafter) and major firms, performed a preparation project to introduce the new standards reorganizing internal processes to report financial instruments or changing accounting system and estimated effects of the adoption analysis on their financial positions. A few firms which completed the project disclosed the effects on the footnote of 2017 financial statements or the first quarter 2018.

Under K-IFRS 1039, it was allowed that CEOs attempted earnings managements through disposal of the AFS, which valuation gains accounting for other comprehensive income were recirculated. In accordance with the K-IFRS 1109 to take effect from 2018, financial instruments are classified to amortized cost financial instruments ('AC' hereafter), fair value through other comprehensive income financial instruments ('FVOCI' hereafter) and fair value through profit or loss financial instruments

('FVPL' hereafter). And disposal gains of the FOVCI are prohibited to be recognized for net income when the equities would be sold in the future, so-called recirculation prohibition.

In accordance with of K-IFRS 1109 (paragraph 4.1.4), equity instruments such as stock held for short-term trading purpose or long-term trading purpose without other comprehensive income option ('OCIO' hereafter) are classified to the FVPL, otherwise to the FVOCI. Thus firms have an arbitrary right to reclassify equities which were held for long-term purpose and not exercised the fair value option and recorded as the available-for-sale financial instruments ('AFS' hereafter) under old K-IFRS 1039 into the FVPL, forgiving OCIO from thebeginning of 2018 just by the new standards of K-IFRS 1109.

Previous researches on earnings management using the AFS securities, CEOs have ever attempt earnings management through the AFS, when firms are predicted to encounter net loss or reported earnings are decreased (Paek and Choi 2011, Ji and Song 2009). This research was motivated to investigate whether accumulated other comprehensive income or loss of the AFS could affect reclassified amounts to the FVPL from the AFS under the new regulation of the recirculation prohibition by K-IFRS 1109. In addition, effects of the reported income are researched on the reclassified amounts, because CEOs are likely to attempt earnings management when net income is predicted to be less than target or is low, comparing other firms. I examine whether CEOs

of the firms recording high level of the accumulated other comprehensive income and low level of net income attempted earnings management through reclassification of the AFS by abandonment of the OCIO offered from K-IFRS 1109.

As a result of empirical analysis, firstly, I find that other comprehensive income of the AFS have a positive impact on the reclassified FVPL. Secondly reported income has no significant impact on the reclassified FVPL. Thirdly the interaction effects are found on the firms, which have more accumulated other comprehensive income and low level of reported income. Fourthly effects on the banks are more distinct that those than the manufactures.

This study is the first research to investigate earnings management through the AFS at the timing of the first adoption of K-IFRS 1109, which improved that the firms with higher accumulated other comprehensive income and less reporting income would reclassify to the FVPL aggressively. The results of this research can provide policy implication in that it presented empirical evidences that the OCIO of the equites could be a mean for earnings management. The supervisory authorities and the external auditors need to thoroughly inspect whether the validity of the reclassification to the FVPL at the beginning of 2018. However, generalization of the findings of this study to other firms should be careful because the empirical test was performed with 183 of the small number sample and all sample consists of Korean firms

The remainder of this paper is organized as

follows. Section II reviews the existing literature and its relationship to this paperand develops research hypotheses. Section III develops the research methodology. Section IV describes the empirical results. Section V provides conclusions and discusses the contributions of the paper.

II. Background and Prior Literature

1. K-IFRS 1039 versus K-IFRS 1109

K-IFRS 1039(Paragraph 9) states that all financial instruments are classified to financial instrument "at fair value through profit or loss" consisting of held-for-trading and fair value option, held-to-maturity financial instruments, loans and receivables and available-for-sale financial instruments. Upon sales of financial instrument, disposal gains or losses are measured by difference between book value and selling price plus accumulated other comprehensive income so that accumulated other comprehensive income of the AFS is recognized to be included into reporting income (Paragraph 34), called recirculation of accumulated other comprehensive income.

K-IFRS 1109(paragraph 4.1) approved from 2015 in Korea superseding K-IFRS 1039 became effective beginning in 2018 states that all financial instruments are classified to the AC, the FVOCI and the FVPL. On paragraph 3.2.12, disposal gains or losses are measured by difference between book value and selling price,

which accumulated other comprehensive income of the FVOCI is not include into reporting income, called recirculation prohibition, except for bond instruments.

Equity instruments which are held for long-term trading purpose and exercised OCIO upon the first purchase are classified into the FVOCI of which valuation gains or losses at the end of reporting period are record into other comprehensive income or loss. However when they are sold, their accumulated other comprehensive incomes are prohibited to be recirculated for reporting income. On the first adoption of K-IFRS 1109, CEOs make a decision again about whether to exercise OCIO of the equities that was classified into the AFS with the give-ups of fair value option before 2018. If CEOs determine not to exercise OCIO of the AFS, it was reclassified into the FVPL, otherwise remain the FVOCI.

2. Prior Literature on earnings management through the AFS

As prior literatures about earnings management of AFS, Wyatt (1991) document that managers intentionally sold the securities having disposal gains and hold the securities having disposal loss and Lifschutz (2002), estimating the relation between the ratio of realized securities gains and losses to total value of AFS securities, and return on equity or return on asset, concludes that the motivation of managers of these banks to manage earnings by realizing securities gains and losses is

negatively related to bank earnings before realized gains and losses. Hermann et al. (2003) reports correlation between disposal gain of assets and forecasting error was negative and firms increased income with disposition of tangible assets and securities when current operating earnings are predicted to be less than forecasting earnings. Lee et al. (2006) improves that insurance firms to attempt earnings management through disposition of securities have inclination of other comprehensive income to be expressed in the statement of changes in equity instead of statement of comprehensive income.

Dong et al. (2014) investigates the incremental explanatory of RECLASS for banks' market values and market-adjusted return and found high positive coefficient on RECLASS in both analysis, consistent with investors pricing RECLASS as are latively permanent component of net income. Barth et al. (2017), based on a large sample of publicly listed and non-listed US commercial banks from 1996 to 2011, finds evidence consistent with bank using realized AFS securities gains and losses to smooth and increase low regulatory capital. Dong and Zhang (2018) examine the selective trading of AFS securities by U.S. bank after the implementation off air value accounting under Statement of Financial Accountin Standards No. 115, Accounting Standards Codification Topic 320. They reported evidence of earnings management among banks that choose to report unrealized holding gains and losses in the statement of shareholders' equity appeared but no such evidence among banks disclosing unrealized

holding gains and losses in the income statement which suggested the degree of earnings management varies significantly with the reporting format of unrealized AFS security holding gains and losses.

As previous literatures in Korea, Ji and Song (2009) report disposal gain and valuation gain had significantly incremental explanations on enterprise value but coefficient value of disposal gain was significantly greater than that of valuation gain, firms performed earnings management by disposition of the AFS which was higher than that by disposition of held for maturity (AFM) or tangible and intangible assets and lease hold assets. Paek and Choi(2011) report disposal gain of securities was significantly greater in the firms to report net loss or low net income that the others and also greater when it was highly to account for valuation gain of the AFS in the previous year.

Song et al. (2012) analyzes whether K-IFRS 1109 can prevent earnings management compared with K-IFRS 1039 with case study on Kookmin Bank and Woori Bank as a Korean representative bank and documented earnings management through the AFS would be reduced under K-IFRS 1109 because accumulated other comprehensive income of the AFS cannot be recognized net income upon realization of gains. Lim and Jeon (2013) discover an evidence of earnings management that managers dispose selectively AFS to manage their reporting earnings and manage upward or downward their earnings by disposing selectively AFS depending on the rated of change of net income. Gong(2019) investigates the effect on

reclassification of the fair value through profit or loss assets in the financial industry and reports accumulated other comprehensive income of the AFS has a positive impact on the reclassification.

3. Development of the Research Hypotheses

Under K-IFRS 1039, it was allowed that CEOs attempt earnings managements through the AFS, which some securities having unrealized gains would be sold and realized to net income but other securities having unrealized losses be held on disposal timing (cherry-picking), considering target of net income, forecasting income and income smoothing (Barth et al. 2017, Dong and Zhang 2018, Kim and Kim 2011, Paek and Choi 2011. Lim and Jeon 2013, Park and Kim 2018). Adopting KIFRS 1109 from 2018, all financial instruments are classified to the AC, the FVOCI and the FVPL. In principle, equity instruments are accounted for the FVPL but the equities are classified to the FVOCI that their purpose are not short-term trading and chosen the OCIO at the first recognition stage. Valuation gains or loss of the FVOCI at fair value in the end of each reporting period are recorded on the accumulated other comprehensive income which are prohibited to be recognized as net income when they are sold in the future, so called recirculation prohibition

Expecting the earnings management by the AFS would be reduced because of recirculation

prohibition under KIFRS 1109(Song et al. 2012), CEOs have encounter with the new regulation from the beginning of 2018 which could be more stressful for them of the firms having a large of unrealized gain and predicting reporting income to be decreased or not to meet a target. Much deliberating to solve the stressful regulation, they find an exit to take advantage of OCIO , the same option with different name what they did not choose the fair value option on the stocks held long-term trading purpose as the AFS under K-IFRS 1039 and then dose not choose OCIO of the same AFS given by K-IFRS 1109, reclassifying to the FVPL from the beginning of 2018. The firms recording much unrealized gains of the AFS in the end of 2017 would reclassify the AFS to the FVPL actively because they fall on hard times under the prohibition. On the other hand, unrealized gains being just the past and not critical factor to influence future gains, they are neutral about the reclassification. Our research hypotheses in null form are as follows:

Research hypothesis 1: Accumulated other comprehensive income of the AFS in the end of 2017 does not influence the reclassified amount to the FVPL at the beginning of 2018.

The AFS securities have been used for earnings management when firms expected net loss or decrease of net income (Barth et al. 2017, Dong and Zhang 2018, Paek and Choi 2011, Lim and Jeon 2013). Valuation gains of the AFS are recorded on other comprehensive income being not recognized for net income

through subsequent disposition because of reclassification prohibition of K-IFRS 1109. Being afraid of the new regulation, CEOs of the firms having low level of reporting income get high incentives to attempt reclassification to the FVPL from AFS aggressively at the beginning of 2018. Therefore, this paper develops hypothesis 2 with the expectations of influence between level of net income and the reclassified amount for the FVPL. In addition, hypothesis 3 is developed to investigate differential influence on earnings management of the firms having much unrealized gains in the end of 2017 and reporting low level of net income for 2017.

Research hypothesis 2: Level of net income for 2017 does not influence the reclassified amount to the FVPL at the beginning of 2018.

Research hypothesis 3: Interaction effects between accumulated other comprehensive income of the AFS in the end of 2017 and level of net income for 2017 do not influence the reclassified amount to the FVPL at the beginning of 2018.

III. Research Methodology

1. Research Models

I focus on the earnings management through reclassification of the AFS. Paek and Choi (2011) show empirical evidences that CEOs of the firms expecting current net income to be decreased with the previous year had high

incentives to raise earnings and attempted recirculation of unrealized gains of the AFS by selling the securities. Referring their research model, this study constructed a research model (1) to verify effects of accumulated other comprehensive income from the AFS on the reclassified FVPL, a research model (2) for level of net income and a research model (3) for interaction effects of accumulated other comprehensive income and level of net income as follows.

Effect of accumulated other comprehensive income on the reclassified FVPL:

$$FVPL_i = \beta_0 + \beta_1 AOCI_i + \beta_2 GROWTH_i + \beta_3 LEV_i + \beta_4 SIZE_i + \beta_5 BIG4_i + \beta_6 Bank_i + e_{it} \qquad (1)$$

Effect of level of net income on the reclassified FVPL:

$$FVPL_i = \beta_0 + \beta_1 DROI_i + \beta_2 GROWTH_i + \beta_3 LEV_i + \beta_4 SIZE_i + \beta_5 BIG4_i + \beta_6 Bank_i + e_{it} \quad (2)$$

Effect of level of net income on the reclassified FVPL:

$$FVPL_i = \beta_0 + \beta_1 AOCI_i + \beta_2 DROI_i + \beta_3 AOCI_i \times DROI_i + \beta_4 GROWTH_i + \beta_5 LEV_i + \beta_6 SIZE_i + \beta_7 BIG4_i + \beta_8 Bank_i + e_{it} \quad (3)$$

(See Appendix A for the definitions of the variables)

In research model (1), a dependent variable is the reclassified FVPL at the beginning of 2018 (FVPLi) and a main independent variable is the accumulated other comprehensive income divided by equity of the AFS in the end of 2017 (AOCIi). As results of regression analysis, if coefficient value of β1 shows plus sign, accumulated other comprehensive income influences positively the reclassified FVPL. In research model (2), a main concern variable is a dummy variable (DROIi), which equals one if rank of return on asset is below than 30 percent among total sample, zero otherwise, a proxy for level of net income. If coefficient value of β1 shows plus sign, net income influences negatively the reclassified FVPL. In research model (3), a main independent variable is interaction variable between accumulated other comprehensive income and level of net income (AOCIi×DROIi) If coefficient value of β3 shows plus sign, the firms having mort accumulated other comprehensive income and less net income attempted different ally aggressive reclassification for the FVPL. Increase ratio of sales (GROWTH), debt ratio (LEV), total asset (SIZE) and big external accounting firm(BIG4) which are found to influence the earnings management through the AFS in the prior researches are used as control variables for each research model.

2. The Sample

Bank, securities and major firms provide the effects of introduction of K-IFRS 1109 on the financial positions in Korea. I selected the firms that disclosed the reclassified FVPL from the AFS securities either on the footnotes of 2017 financial statements or the first quarter of 2018

as the sample. Number of the final sample is 183 firms which consist of 14 banks, 39 securities and 130 manufactures .I retrieved financial statement items electronically from the TS 2000 data set. Table 1 summarizes the sample selection criteria and number of each industry

<Table 1> The sample

Selection Criteria	Number
Banks that disclosed the reclassified FVPL either on the footnotes of 2017 financial statements or the first quarter of 2018 financial statements.	14
Securities that disclosed the reclassified FVPL either on the footnotes of 2017 financial statements or the first quarter of 2018 financial statements.	39
Manufactures that disclosed the reclassified FVPL either on the footnotes of 2017 financial statements or the first quarter of 2018 financial statements.	130
Final Sample	183

IV. Empirical Results

1. Descriptive Statistics and Correlation coefficients

Table 2 shows the descriptive statistics for the variable used in this study. All variables were winsorized at 1% and 99% to reduce the influence of extreme values. The mean and standard deviation of the reclassified FVPL variable (FVPL) are 0.2855 and 0.4847, respectively. Those of the accumulated other comprehensive income variable (AOCI) are 0.2295 and 0.5638, respectively, and those of the dummy variable of level of net income (DROI) are 0.3333 and 0.4726, respectively. The mean and standard deviation of the increase ratio of sales (GROWTH) are 0.0269 and 0.1403, respectively and those of the debt ratio (LEV) are 0.4834 and 0.2723, respectively. The mean and standard deviation of the total asset (SIZE) are 28.839 and 1.9284, respectively, and those of dummy variable on the external accounting firm (BIG4) are 0.9289 and 0.2576, respectively and those of bank industry dummy variable (Bank) are 0.2896 and 0.4548, respectively.

<Table 2> Descriptive statistics of the Variables

Variables	Mean	Std. Dev	1st Quartile	Median	3rd Quartile
FVPL	0.2855	0.4847	0	0	0.4997
AOCI	0.2295	0.5638	0	0.1512	0.3738
DROI	0.3333	0.4726	0	0	1
GROWTH	0.0269	0.1403	−0.0018	0.0177	0.0760
LEV	0.4834	0.2723	0.2712	0.4500	0.7250
SIZE	28.839	1.9284	27.693	28.952	30.232
BIG4	0.9289	0.2576	1	1	1
Bank	0.2896	0.4548	0	0	1

See Appendix A for the definitions of the variables.

Table 3 reports the Pearson correlation coefficients. A significant positive relationship is observed between the reclassified FVPL(FVPL) and the accumulated other comprehensive income(AOCI). The reclassified FVPL has significantly positive correlations with the low level of net income variable (DROI) at a 5 percent significance level, with the interaction effect variable (AOCI×DROI) at a 1 percent significance level, with the debt ratio variable (LEV) at a 5 percent significance level and with the bank industry variable (Bank) at a 1 percent significance level, respectively. The variable DROI has significant positive relationships with the variable of AOCI×DROI, the variable ofLEV and the variable of SIZE and a significant negative correlation with the variables of GROWTH, respectively. The variable of LEV has a significant positive correlation with the variable of SIZE. The variable of SIZE has a significant positive correlation with the variable of BIG4. The variable of Bank has a significant positive relationship with the variables of AOCI, DROI, LEV and BIG4, respectively.

<Table 3> Pearson correlation coefficient matrix of the variables

	FVPL	AOCI	DROI	GROWTH	LEV	SIZE	BIG4
ACOI	0.330***						
DROI	0.173**	0.006					
AOCI×DRIO	0.408***	0.740***	0.249***				
GROWTH	−0.029	−0.046	−0.155**				
LEV	0.172**	0.044	0.605***	0.102			
SIZE	0.009	−0.053	0.298***	−0.002	0.520***		
BIG4	−0.016	0.070	0.015	0.191***	0.114	0.304***	
Bank	0.279***	0.125*	0.494***	−0.057	0.477***	0.019	−0.151**

1) See Appendix A for the definitions of the variables.
2) ***, **, * represent significance levels at 1%, 5%, 10%, respectively.

2. Univariate Analysis

In the present section, univariate analysis was used to determine if there is a difference of the reclassified FVPL by each group. The results of t-test and the Wilcoxon rank sum test carried out to determine if there were differences in the mean and the medians of the variable of FVPL by each group are presented in the Table 4 of which Panel A shows results of difference analysis between a group with positive value of the variable of ACOI and the other group and Panel B shows results of difference analysis between low level of net income and the other.

In Panel A, the average and the median of the FVPL of positive AOCI group are 0.3574 and 0.0411 being statistically higher than those of the other group which suggests the firms having unrealized gain of the AFS attempt reclassification to FVPL, aggressively. In Panel B, the average and the median of the FVPL of low-level net income group are 0.4039 and 0.1264 being statistically higher than those of the other group which suggests the firms recording low level of net income attempt reclassification to FVPL, aggressively.

<Table 4> Univariate analysis

Panel A: Difference analysis between a group with positive value of the *AOCI and the other group*

Name of Group	FVPL			
	Mean	*Median*	*t-value*	*z-value*
Positive AOCI group(n=131)	0.3574	0.0411	3.27***	4.52***
The other group(n=52)	0.1046	0.0000		

Panel B: Difference analysis between low level of net income group*and the other group*

Name of Group	FVPL			
	Mean	*Median*	*t-value*	*z-value*
Low level of net income group(n=61)	0.4039	0.1264	2.37**	3.21***
The other group(n=122)	0.2264	0.0000		

1) The positive AOCI group consists of the firms of which value of the variable AOCI is more than zero, otherwise to the other group.
2) The level of net income group consists of the firms of which ROI ranks the bottom one-third of total sample, otherwise to the other group.
3) ***, **, * represent significance levels at 1%, 5%, 10%, respectively.
4) t-value and z-value refer to t and z statistics obtained from parametric t-test and non parametric Wilcoxon rank sum test, respectively.

3. Regression Analysis

Table 5 shows the results of multiple regression analysis after controlling the effects of increase ratio of sales, debt ratio, business scale, big accounting firm, bank industry that are known to systematically influence earnings management of AFS to analyze the effects on the reclassified FVPL. The results of analysis about the influence of the accumulated other comprehensive income variable (AOCI) on the reclassified FVPL are presented in the model 1 and the results about the influence of the low level of net income (DROI) are found in the model 2. Interaction effects both the variable of AOCI and DROI(AOCI×DROI) are regressed in the model 3.

In the model 1, coefficient value of the variable AOCI is 0.25852 at a 1 percent significant level which indicates the firms having a large of accumulated other comprehensive income of the AFS attempt the reclassification, aggressively. In the model 2, the variable of DROI does not have a significant value suggesting the influence of level of net income are not material. The value of interaction effects variable (AOCI×DROI) is 0.37366 at a 1 percent significant level in the model 3 which indicates the firms with the more accumulated other comprehensive income and the less net income take advantage of the reclassification for earnings management through the AFS, aggressively. The coefficient values of the variable Bank are significant positive in all models that shows the reclassification amount of the banks and securities is more than those of the manufactures.

<Table 5> Result of regression analysis

Variables	Model 1 Coefficient	Model 1 t-value	Model 2 Coefficient	Model 2 t-value	Model 3 Coefficient	Model 3 t-value
Intercept	0.20198	0.35	0.43453	0.71	0.28120	0.49
AOCI	0.25852	4.30***			0.03938	0.43
DROI			0.02423	0.24	−0.03599	−0.37
AOCI×DROI					0.37366	3.16***
GROWTH	−0.03208	−0.13	−0.08690	−0.33	−0.02168	−0.09
LEV	0.12153	0.70	0.12049	0.60	0.04600	0.24
SIZE	−0.00285	−0.13	−0.01181	−0.51	−0.0426	−0.20
BIG4	−0.01653	−0.12	0.05807	0.39	0.01084	0.08
Bank	0.22056	2.45**	0.25485	2.61***	0.23877	2.59**
F-statistics	5.97***		2.63**		5.99***	
Adj. R^2	0.1408		0.0510		0.1798	
Obs.	183		183		183	

1) See Appendix A for the definitions of the variables.
2) ***, **, * represent significance levels at 1%, 5%, 10%, respectively.

V. Conclusions

In accordance with the K-IFRS 1109, all financial instruments shell be classified to amortized cost(AC), fair value through other comprehensive income(FVOCI) and fair value through profit or loss(FVPL). Change of the FVOCI at fair value are recognized as other comprehensive income in the statements of capital change and disposal gains of the FVOCI are prohibited to account for reported income of income statement when the securities would be sold in the future, so-called recirculation prohibition.

This research was performed to investigate whether accumulated other comprehensive income of available-for sale financial asset (AFS) could affect the reclassified FVPL at the beginning of 2018. In addition, effects of net income are researched on the reclassified amounts, because CEOs are likely to try earnings management when net income is predicted to be less than target level or it is low, comparing performance for the previous year.

Number of total sample is 183 firms that disclosed the amount of the reclassified FVPL from the beginning 2018 at the footnotes on the effect of the first adoption of K-IFRS 1109 of 2017 financial statements or the first quarter of 2018 financial statements. The main results of the empirical analysis are summarized as follows. First, I find that the accumulated other comprehensive income from the AFS in the end of 2017 has a positive impact on the reclassified FVPL. Second low level of net income for 2017

has no significant influence on the reclassified FVPL. Third the differential effects are found on the firms which have both much accumulated other comprehensive income and low level of net income. Fourthly the effects on the reclassification are more distinct in the sample of the banks than those of the manufactures.

This study is the first paper to investigate earnings management through the AFS at the timing of the first adoption of K-IFRS 1109 and this research contributes to give a warning about earnings management occurred by not only disposal of the AFS but also the reclassified FVPL. My findings provide evidences of earning management through the reclassification of the FVPL and gives meaningful implications to regulators, academic researchers and auditors. The supervisory authorities need to thoroughly inspect whether the validity of the reclassified FVPL for the healthy adoption of K-IFRS.

This study has the following limitations. First, generalization of the findings of this study to other firms should be careful because the empirical test was performed with 183 of the small number sample and all sample consists of Korean firms. Second, I am not aware of the existence of any conflicting accounting standards in other countries with K-IFRS 1109. Therefore our research is limited to the Korean firms and may not be generalized to other jurisdictions.

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Appendix A. Definitions of the variables

$FVPL_i$= (reclassified amount to the FVPL securities at the beginning of 2018)/ (the AFS securities in the end of 2017) for the ith firm;

$AOCI_i$= (Accumulated other comprehensive income)/ (the AFS securities) in the end of 2017 for the ith firm;

$DROI_i$= Dummy variable which equals one if rank of return on asset of the ith firm among total sample is below than 30 percent, zero otherwise;

$AOCI_i \times DROI_i$=Interaction variable between AOCI variable and DROI variable for the ith firm;

$GROWTH_i$= (sales for 2017-sales for 2016)/(total asset in the end of 2016) for the ith firm;

LEV_i=(total liabilities in the end of 2017)/ (total asset at the end of 2016) for the ith firm;

$SIZE_i$= natural logarithm of total asset at the end of 2016 for the ith firm;

$BIG4_i$= Dummy variable which equals one if an external auditor is PWC, Deloitte. KPMG and E&Y, zero otherwise.

$Bank_i$= Dummy variable which equals one if firm$_i$ belongs to bank industry, zero otherwise.

Abstract

기타포괄이익측정 금융자산 평가손익의 재순환금지와 이익조정

공경태[*]

개정 금융상품 기준서 제1109호가 2018년부터 시행되었다. 신 기준서에서는 지분상품을 단기매매목적이 아닌 경우 기타포괄손익선택권(OCIO)이 행사된 경우는 기타포괄손익-공정가치금융상품으로 분류하게 된다. 이렇게 분류된 지분상품의 모든 후속측정은 공정가치로 측정하게 되며 이 평가과정에서 발생한 평가손익은 기타포괄손익누계액으로 분류한다. 그러나 향후 해당 금융자산을 매도시 관련 기타포괄손익누계액을 당기손익으로 재순환금지를 규정하고 있다.

과거에는 매도가능증권으로 계상하고 있는 지분상품에 대한 평가손익은 기업이 해당 지분상품을 매도함으로써 기타포괄손익을 당기손익으로 재순환하여 인식할 수 있었지만 새로운 기준서에 의하여 재순환이 금지된 것이다. 본 연구는 K-IFRS 1109의 도입으로 기업이 향후 매도가능증권에 대한 재순환금지가 예상됨에 따라 과거 매도가능증권으로 분류하였던 지분상품을 당기손익공정가치금융상품으로 재분류하려는 유인이 있을 것으로 보고 이를 조사하고자 하였다. 구체적으로 재무상태표에 기타포괄이익을 많이 계상하고 있는 기업일수록 재순환금지로 인한 위험에 크게 노출될 것으로 예상되어 적극적으로 당기손익공정가치 금융상품으로 재분류를 시도할 것으로 예상하였다. 그리고 상대적으로 전년도 보고이익이 낮은 기업일수록 매도가능증권의 당기손익공정가치금융상품 재분류를 시도하여 당기손익을 더 적극적으로 계상하려고 할 것으로 예상하였다..

실증분석의 주요한 결과를 요약하면 다음과 같다.

첫째, 기타포괄이익이 크게 계상하고 있는 기업일수록 적극적으로 당기손익공정가치금융상품으로 재분류를 시도하였다. 둘째, 보고이익수준은 재분류금액에 유의적인 영향을 미치지 않는 것으로 나타났다. 셋째, 기타포괄이익이 크면서 보고이익이 낮은 기업일수록 재분류금액이 크게 나타났다. 넷째, 이러한 영향은 은행업일수록 크게 나타났다. 본 연구의 결과는 금융상품 기준서 제1109호가 2018년부터 시행되면서 매도가능증권의 당기손익공정가치금융상품의 재분류를 통한 이익조정에 대한 실증적 결과를 제시하고 있다. 감독당국은 지분상품의 재순환금지로 인하여 야기되는 기업의 이익조정이 예상됨에 따라 이를 방지할 수 있는 정책의 필요성이 있으며 외부감사인은 매도가능증권의 재분류에 대한 감사범위의 결정이나 감사증거 수집 등에 신중을 기해야 할 것이다.

핵심주제어: K-IFRS 1109, 재순환금지, 이익조정, 재분류

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