

THRESHOLD ON LARGE UNLISTED COMPANIES TO BE MADE MORE REASONABLE IN ACCOUNTING RULES

The FSC announced on April 24 that a partial revision bill of the Enforcement Decree of the Act on External Audit of Stock Companies has been approved at a cabinet meeting held earlier today and will take effect from May 2. This revision bill is a follow-up to the measures to overhaul accounting regulations to lower burden on SMEs announced in October last year, and it aims to encourage individuals to report on accounting frauds. Key details of the revision are stated below.

First, the threshold for determining large unlisted companies that fall under the similar level of accounting regulations applied on listed companies will be increased from the current level of KRW100 billion or more in assets to KRW500 billion or more. However, the current threshold of KRW100 billion in assets will remain for companies with many stakeholders such as investors that are bound to file business reports and those belonging to conglomerates bound by disclosure duties. The requirement for establishing and operating an internal accounting control system and for periodically appointing external auditors will also be adjusted according to this change in asset threshold for determining a large unlisted company.

Second, there will be an incentive given to company management to strengthen their responsibility over accounting management and encourage internal control on a voluntary basis. For companies that voluntarily disclose weaknesses in their internal accounting control system or have taken steps to improve them, there will be an incentive to be removed from a supervisory action. In addition, the role of establishing and managing standards for assessing and reporting internal accounting control system will be performed by the Financial Supervisory Service (FSS) from now on to help induce more compliance from companies.

Third, there will be an enhanced level of monetary rewards and protection for individuals reporting on accounting fraud activities. To help encourage individuals to report on accounting frauds, the revision provides a clear legal basis for anonymous reporting and raises the level of monetary reward by more than five times.

This revision bill of the Enforcement Decree of the Act on External Audit of Stock Companies, along with the two subordinate regulations, will go into effect on May 2.

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