

[Interview]

## The Current Status of the Implementation of IFRS in Taiwan

### 台湾におけるIFRS適用の現状

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#### Introduction

With the globalization of corporate activities, the introduction of IFRS has been promoted in many countries. In Taiwan, compliance of public company financial statements with IFRS has been required since 2013. This paper, based on interviews made with Dr. Yang-Tzong Tsay of National Taiwan University on May 31, 2013, summarizes the current status of the implementation of IFRS in Taiwan.

#### I The history of accounting standard-setting in Taiwan

There had been no comprehensive set of Generally Accepted Accounting Practices (GAAP) before 1980, before which accounting practices were under significant influence from China and Japan. However, America has played an important role since the end of World War II. The Accounting Research and Development Foundation (ARDF) was established in 1984 and reviewed the accounting standards pronounced by the Accounting Principles Board (APB) and the Financial Accounting Standards Board (FASB) and then adopted those applicable and suitable for Taiwan. In this process, Taiwanese accounting educators and researchers who have returned home with doctoral degrees from the United States have played a major role. To achieve the internationalization of accounting education, American textbooks have been widely used in top universities in Taiwan, although classroom lectures have been generally conducted in Mandarin Chinese.

In the late 1990s, in response to the trend toward international accounting standards, the ARDF also gradually shifted its standard-setting policy from the U.S. FASB to IFRS. Then, full and mandatory adoption of the IFRS was required in 2010 by the government regulating body. However, with

resistance mainly from insurance companies and state-run companies, and in consideration of several other factors, the Taiwanese government decided to deviate slightly from the IFRS in some accounting treatments. As such, full adoption of IFRS in Taiwan is no longer claimed, but is referred to in practice as the T-IFRS.

#### II Factors influencing the introduction of IFRS

It was said that the Securities and Exchange Commission (SEC) equivalent in Taiwan had been complaining about strong lobbying from industries and legislators on setting accounting standards. As a result, the regulator thought it would be easier for them to remove this annoyance by full adoption of IFRS. In addition, the government believed that if IFRS was adopted, foreign investment in the Taiwan stock market would be increased.

#### III Effect of the introduction of IFRS

An immediate effect was that the majority of companies affected needed to prepare for the change and to spend money in re-training accountants, modifying accounting systems, hiring outside consultants, and facing an increase in audit fees.

For a few big companies whose stocks were traded on both foreign and local exchanges, the need to prepare two sets of financial statements could be avoided and costs were reduced. CPA firms, some consulting firms, accounting software providers, and some accounting textbook authors obviously benefitted most from this change.

In order to translate the IFRS into the local language for companies to follow, the government set aside a large budget for translating, promoting, and educating about the new accounting standards. Some universities were not well prepared for this. Many people complained about the difficulty of understanding the translated version of the IFRS. In short, the social costs involved were quite high.

There was no significant difference in the effect on different industries. However, the financial industry and many state-run companies which would be required to use fair value accounting would accrue a high retirement benefit expense if IFRS was adopted. Finally, the regulator decided to afford these companies some exemptions to resolve the problems.

#### IV The subsequent role of ARDF

ARDF was established by a group of professional accountants, businessmen and accounting educators in 1984 as a private organization. However, the Chairman and the Secretary General of the Foundation have always been either determined or approved by the government. In essence the ARDF has been totally controlled by the government, previously under the SEC and now under the Financial Supervisory Commission (FSC).

Before the adoption of the IFRS, the Financial Accounting Standards Committee (FASC) under the ARDF had been in charge of setting accounting standards in Taiwan. Now that Taiwan has decided to adopt IFRS or TIFRS, the setting of accounting standards has shifted to the International Accounting Standards Board (IASB).

The FASC was replaced in 2013 by the Taiwan Financial Reporting Standards Committee (TFRSC). Although the function of the TFRSC is quite ambiguous, it no longer sets the accounting standards. The FSC now usually outsources the

translation of the new edition of the IFRS to the Research Division of the ARDF. Then the TFRSC reviews the correctness of the translation.

#### V Research trends

There seems to be no research yet on the effect analysis of the introduction of IFRS, as this was only adopted in 2013. Indeed, Taiwan is probably not suited to providing a good environment for doing market-based event studies. One major reason is that the Taiwanese government has heavily intervened in the stock market. Thus, the Taiwan stock market is not an efficient and mature market, which is a precondition for doing meaningful market-based event research.

#### VI Accounting standards for SMEs

Considering the lack of human and financial resources in SME, the Ministry of Economic Affairs, the regulator of the financial statement of SMEs, has not decided and probably will not ask SMEs in Taiwan to adopt the SME edition of the IFRS. But for listed and public companies whose regulating agency of financial statements is the FSC, they may be required in the future to apply the SME edition of IFRS for their non-public subsidiaries.

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Professor Yang-Tzong (Jimmy) Tsay received his Ph.D. in accounting from the University of Maryland in 1988. He has taught at National Taiwan University (NTU) from 1988 to 2010 as a full-time faculty member and became a professor emeritus of NTU in 2011. As one of the pioneer accounting educators in Taiwan, Dr. Tsay helped set up accounting masters and doctoral programs at NTU. He served as the Chairman of the Department of Accounting at NTU in years 1997-2000. He is a recipient of the 2013 Distinguished Alumnus Award by the University of Maryland. Dr. Tsay will be the President of the Asia Pacific Management Accounting Association as of January 1, 2014.