

July 25, 2014

## **IFSAM**

**(International Federation of Scholarly Associations of Management)**

Accounting Session sponsored by JAA (Japan Accounting Association)

September 3 (Wednesday), 2014, 15:30-17:00

### **IFRS Adoption: Lessons from Korea and Taiwan**

As business activities became global, accounting and financial reporting are also developed globally. Today IFRS (International Financial Reporting Standards) are used in 130 jurisdictions. In Japan, voluntary application of IFRS is allowed, but it is not yet a mandatory requirement even for the listed companies. As a result, out of about 3,500 listed Japanese companies, only 40 companies (1 %) apply or have plans to apply IFRS on a voluntary basis.

In 2009, Business Accounting Council once reached to a tentative conclusion to decide in 2012 whether to apply IFRS to the listed companies on a mandatory basis. However, the Democratic Party abandoned this policy, and lost an opportunity to show the leadership of Japan in global accounting society. The Liberal Democratic Party thinks IFRS is an important vehicle for the Growth Strategy and started to expand the voluntary application of IFRS among the listed Japanese companies.

During this time period, Japan's neighboring countries like Korea and Taiwan started the mandatory application of IFRS to the listed companies. Japan has a lot to learn from their experiences. At the JAA session, Dr. Tien-Mu Huang (Vice Chairperson of Taiwan Financial Supervisory Commission) will speak about "IFRS Adoption in Taiwan" and Professor Jongsoo Han (Professor at Ewha Womans University and Korea Accounting Standards Board member) will speak about "IFRS Adoption in Korea".

## JAA Session

### IFRS Adoption in Taiwan

(Abstract)

Tien-Mu Huang,  
Vice Chairperson  
Taiwan Financial Supervisory Commission

#### 1 . More Transparency is leading the Way

As a capital market regulator, the FSC is aware of the importance of convergence with the International Financial Accounting Standards (IFRSs), which will provide investors with more reliable information, and will reduce the cost for companies to raise capital on international markets. Therefore pursuing consistency between local accounting standards and IFRSs is one of the FSC's major policies.

#### 2 . To Adopt or to Converge, that is not a question!

##### (1) Initiative

Since 1999 , Taiwan's accounting standards have been converging to IFRSs. Taiwan's accounting standards have 80% similarity with IFRSs. Therefore, full adoption of the IFRSs requires no significant changes in accounting policies and transitional adjustments.

After adopting IFRSs, firms will find it less expensive to raise capital on global markets, and foreign companies will not need to restate financial statements to raise capital in Taiwan. This will make our capital market more accessible for local and foreign enterprises. Investors will be able to obtain more transparent and synchronized IFRS financial reports to make economic decisions.

From the standpoint of cost-benefit analysis, the cost of conversion to IFRSs is low, but the benefit of adopting IFRSs is high.

##### (2) Process - Strategies we use

The process of the FSC promotion of IFRS adoption includes planning, supervision, organization, and promotion.

### ***Planning-***

On 14 May 2009, the FSC announced the "Roadmap toward IFRS Adoption in Taiwan," which provides for a two-phased mandatory adoption of IFRSs and early use of IFRSs.

On 28 January 2014, the FSC announced its "Roadmap for Full Adoption of the Updated IFRSs," to be implemented in two stages.

### ***Supervision-***

The FSC requires public companies to file transition plans in order to continue supervising the implementation of those transition plans, and to assist companies in solving IFRS problems.

### ***Organization-***

To deal with problems in the adoption of IFRSs, the FSC has established an IFRSs Taskforce to collaborate with ARDF, the Taiwan Stock Exchange, and the GreTai Securities Market to implement work plans.

### ***Promotion-***

The FSC has held nearly 2,000 seminars and symposiums for the banking, insurance, securities and futures sectors, and also for companies outside the financial industry.

## **(3) Challenges**

During the process of promoting IFRSs adoption in Taiwan, the FSC has also faced some challenges, including cross-border communication and regulatory adjustments. For issues derived from IFRS adoption, the FSC has communicated with other ministries.

## **(4) What we have done**

### ***Outcome so far-***

All the Phase I companies have prepared and filed IFRS-compliant financial reports on schedule. All the Phase II companies have already completed the dry run and preparation of a transition date balance sheet.

### ***Benefits-***

According to the response from companies, three major and instant benefits after adoption are as follows:

1. It is easier to communicate with foreign shareholders due to enhanced transparency of financial statements.
2. There is no need to restate financial statements to raise capital overseas.
3. Furthermore, the integration of internal reports can greatly enhance the operational efficiency of companies.

Since the FSC announced the "Roadmap toward IFRS Adoption in Taiwan" in May 2009, Taiwan market has changed as follows:

1. The holdings of foreign investors have risen from 28.6% to 34.85% as of the end of May 2014.
2. According to CG Watch 2010, Taiwan's corporate governance ranking in Asia has risen from 11<sup>th</sup> to 4<sup>th</sup> since IFRS adoption.
3. In addition, the number of foreign companies listed on the TWSE and the GreTai market has risen from 6 to 87.

## **IFRS Adoption in Korea**

### **(Abstract)**

Jongsoo Han

Board Member, Korean Accounting Standards Board

Ewha Womans University

#### **1. Why Korea adopted IFRS?**

After the Financial crisis in 1998, Korea established the Korean Accounting Standard Board (KASB) and started the phased convergence with IFRS from 1999. Today, Korean GAAP is almost equivalent (about 90%) to IFRS except for a few modifications. But Korea is discounted as non-compliant with IFRS. It is clear that mere convergence cannot gain the trust of the market.

#### **2. IFRS adoption Roadmap of Korea**

All listed companies in Korea were required to adopt IFRS in 2011. For smooth and successful transition, the roadmap for IFRS adoption was announced in 2007, and early adoption was allowed from 2009.

#### **3. Positive Impact of IFRS Adoption**

Positive impacts of IFRS adoption can be observed in, for example, (1) relief of the burden to prepare dual financial statements, (2) enhanced international status and role, and (3) strengthened independence from constituents.

#### **4. Some Non-Positive Impact of IFRS Adoption**

However, new problems emerged after the adoption of IFRS. For example, there are (1) violations found in the review of the accounting firms' audit procedures, and (2) increase of audit hours and Audit fees (Listed firms). Ratings of National Competiveness for Accounting did not show the improvement. (IMD: 58<sup>th</sup> (2006) → 41<sup>st</sup> (2012) → 58<sup>th</sup> (2013), and WEF: 35<sup>th</sup> (2007) → 75<sup>st</sup> (2012) → 91<sup>th</sup> (2013))

## 5. Challenges

There are many challenges regarding the adoption of IFRS.

**(1) Principle-based standards: Lack of** interpretations or guidelines resulted in the diversity of practice and hence the diversity on operating income.

**(2) Consolidated financial statements**

Number of companies in consolidation has increased mainly by the change in the scope of consolidation.

**(3) Continuous changes in IFRS Standards**

Recently, there are many revised and amended standards and interpretations.

**(4) Extensive application of Fair Value accounting**

While fair value accounting provides more relevant financial information, companies are exposed to higher level of volatility.

**(5) Accounting issues of Emerging countries**

Local currency's closing rate might not reflect the economic substance in rare circumstances such as financial crises.

## 6. Lessons Learned

**(1) Importance of Education**

Education is the key for the successful implementation of IFRS: Education for judgment ability, education for communication ability, and education for business.

**(2) Building up Infrastructures**

Infrastructures include infrastructure for education, long process of amending laws and regulations, building up valuation industry for fair value evaluation, and improvement on regulatory system.

**(3) Translation of IFRS**

Recent survey revealed that there are many issues to be overcome in translation.

**(4) Importance of Communication and Research**

'Principles-based' feature of IFRS highlighted the importance of good communication among constituents.

**(5) Strengthening the role of the IFRS IC**

Proposals to strengthen the role of the IFRS IC include: to make the IFRS IC operates on a full-time basis, to increase the number of IC staff, and to delegate some of its authority and role to national standard-setters.

**(6) Have a sufficient preparation period**

Korea had a four-year preparation period before the IFRS adoption, but has still encountered various issues – training, system changes, law changes, etc.

**7. Conclusion**

IFRS adoption is more than just adopting a set of accounting standards.

IFRS adoption in Korea means that a code-law country is willing to accept a common-law principle. IFRS adoption is more than just adopting a set of accounting standards. Korea is expected to carry out remaining tasks of the IFRS roadmap and continue to move toward the high-quality IFRS-based financial reporting.