The Clevo Case: A Timeline of IFRS “Reluctance”

ABSTRACT

There is an ongoing policy debate over whether the adoption of IFRS should be mandatory. All Taiwanese listed companies had to adopt IFRS from 2013, but they could choose to adopt earlier in 2012. Surprisingly, given cross-national comparisons, not one Taiwanese company adopted early. This is an extreme example of policy “reluctance”. We explore this unique setting, by analyzing a leading reluctant Taiwanese company, Clevo. It was widely known as a potential early adopter but withdrew at the last minute. This paper illustrates how a firm which perceived net benefits would be incentivized to adopt IFRS early, but then how uncertainties in regulations could stall such intentions. Through discussing how the accounting regulators responded to this firm’s actions (and vice versa), this paper helps us to understand better the prerequisites for effective policy design and corporate decision-making in the context of IFRS adoption and implementation. This paper, using a qualitative research method, will also add to exiting IFRS literature which mainly focuses on quantitative analysis.

Keywords: policy reluctance, regulatory change, regulations, IFRS, fair value, investment properties

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1. INTRODUCTION

The International Accounting Standards Board (IASB) was first established in 2001, with the aim of worldwide harmonization of accounting terminology, professional practice, and financial statement analysis. Its mission was to foster transparency, accountability, and efficiency across all markets in all nations by the use of new International Financial Reporting Standards (IFRS) (Pacter, 2014). Today, IFRS has been formally established in over 140 jurisdictions, with many more allowing their partial use. The implementation of IFRS occurs either at an exact date, or within a "window" of dates. The latter allows voluntary early adoption (Soderstrom & Sun, 2007).

This paper investigates how this voluntary adoption period can create policy concerns that ultimately impede the introduction of IFRS, using the case study of the Taiwanese-originated Clevo Company (hereinafter simply "Clevo"). Clevo was selected because it was initially a high-profile IFRS early adopter, and attracted much attention, at the time, from the media, practitioners and accounting regulators (Li & Chang, 2011). However, in the end, all Taiwanese companies, including Clevo, chose *not* to adopt IFRS early. Over a decade after IFRS was introduced, Christensen (2012) wondered why adoption of IFRS was not always attractive, as the academic arguments tended to favor adoption. This paper explores in micro-detail why, in practice, early adoption of IFRS proved to be unattractive in Taiwan. Our qualitative evidence will add to the existing literature which focuses on quantitative analysis, and this paper will contribute to the ongoing discussion about the worldwide non-adoption of IFRS (Christensen, 2012; Pownall & Wieczynska, 2018).

This paper is also relevant to understanding the continued appetite for adopting IFRS in neighboring ASEAN countries (Joshi, Yapa, & Kraal, 2016). This has spread to countries such as Hong Kong, Singapore, Malaysia, and South Korea in recent year (Kwon, Na, & Park, 2019). It is even in the sightline of Japan, which currently is showing a powerful intention to adopt, despite having been a legendary procrastinator (Gray, Nagata, Nakamura, & Ozu, 2019). Could PR China, already well on this pathway - with a roadmap - be the next large complete adopter of IFRS? Since the USA is also among those still evaluating the use of IFRS, this paper will help to provide useful information for policy design surrounding IFRS adoption, and assist accounting regulators in achieving the accounting convergence.

This paper has been organized in the following way: background information and relevant literature (Section 2); research method (Section 3); case study (Section 4); and conclusion and implications (Section 5).

2. BACKGROUND AND LITERATURE

2.1 Timeline and Purpose of Introducing IFRS in Taiwan

Taiwan's Financial Supervisory Commission (FSC) required all listed companies to adopt IFRS from 2013 onwards, with the option of adopting early in 2012. Compared to most of Asian countries (such as Singapore in 2003, and the Philippines in 2005), the timing for Taiwan to introduce IFRS was late (Daske, Hail, Leuz, & Verdi*,* 2008). To a degree, the long-standing impact of US practice on Taiwanese accounting practice was responsible for the country-level reluctance over IFRS adoption, during worldwide accounting convergence (Lu, 2009).

Nowadays Taiwanese firms often invest in other firms, thus becoming embedded in corporate groups, or involved in international trade (National Statistics Taiwan, 2012). Consequently, Taiwanese Generally Accepted Accounting Principles (GAAP), which focused on individual accounts, no longer provided adequate information on Taiwanese companies (e.g., on markets and investments) (PwC Taiwan, 2008). It was thought that the introduction of IFRS, with its focus on consolidated accounts, would provide more complete and transparent information about business operations for investors, and thus encourage investment. Another anticipated benefit of IFRS's introduction was promoting the internationalization of Taiwanese firms, thereby reducing costs, in operational areas like financial reporting and fund acquisition. This was deemed important to the Taiwan's market economy, which was relatively small, in international terms. Therefore, foreign capital was judged essential to the development of Taiwanese firms (Lu, 2009). In the end, IFRS was introduced in Taiwan, with the aims of enhancing the comparability and quality of financial reporting, reducing the cost of capital in international markets, and attracting foreign investment.

However, no Taiwanese company adopted IFRS early (i.e., before the mandatory adoption in 2013), when the option was offered in January 2012 [see timeline in Figure 1, point (i)]. This was a unique outcome, worldwide, for this standard. It stands in stark contrast to South Korea, a very comparable Asian nation, which had 14 firms early adopting IFRS in 2009, and then 59 in 2010 (Deloitte, 2013): as a prelude to over three thousand firms adopting IFRS mandatorily in 2011 [see points (a) and (f) in Figure 1].

[insert Figure 1 about here]

Among potential early adopters of IFRS in Taiwan, Clevo stood out (Li & Chang, 2011). Its advocacy of IFRS generated media comment, and attention from investors and standard setters. It even precipitated regulatory change by Taiwan's FSC on the valuation of investment properties. But, at the last minute, Clevo withdrew from early adoption of IFRS in August 2011 [see Figure 1(h)]. Why? This paper traces the genesis - and collapse - of sentiment that led to this.

2.2 Early Adoption: Costs and Benefits

Many countries (e.g., Greece, Germany, Finland and South Korea) have allowed companies to adopt IFRS earlier than the mandatory adoption date (Deloitte, 2007; Pownall & Wieczynska, 2018). The permitted length for the early adoption period, before it became mandatory, differed widely across countries. For example, for Denmark and Greece it was one year, for German it was seven years, and for Finland and South Korea it was two years. Even with quite short permitted periods, early adopters could be found (Kim & Shi, 2012).

In principle, early adoption would allow companies to enjoy immediately the benefits of using IFRS like raising external funds, reducing the cost of financial reporting, and improving the information environment. Further, it would help accounting authorities to achieve their strategic objectives earlier, such as enhancing the efficiency of capital markets, and promoting transparency through accounting convergence (Covrig, Defond, & Hung, 2007; Ernst & Young, 2009; Kim & Shi, 2012). If adoption dates were not synchronized across all companies, the comparability of financial reporting might be compromised, with some companies being early adopters and others not (Ernst & Young, 2009). Without any early adoption, a delay in companies and/or accounting authorities obtaining potential benefits from IFRS adoption could occur.

2.3 IFRS vs. Taiwanese GAAP

Before IFRS was introduced, Taiwanese GAAP was used by Taiwanese companies. Taiwanese GAAP, heavily influenced by US GAAP, was rules-based, and very different from the principles-based IFRS. It is worth noting that the fair value approach to valuation under IFRS which aims to reflect the "current and actual" value, often by reference to market prices, could result in very different reported figures under Taiwanese GAAP, which used a cost-based model for valuing investment properties. These differences could materially affect companies' stock market performance (Rodríguez-Pérez, Slof, Solà, Torrent, & Vilardell, 2011).

IFRS and Taiwanese GAAP were also different in ways (Taiwan Stock Exchange Corporation, 2011b): revaluation of assets; lease accounting; business combinations; financial instruments; interim financial reporting; the definition of functional currency; income tax; and pension plans. Further, the formats of financial statements under the two standards were different, and the extraordinary items allowed in Taiwanese GAAP were not permitted under IFRS (Taiwan Stock Exchange Corporation, 2011b). Land-use rights were treated as intangible properties under Taiwanese GAAP but could be treated as long-term assets under IFRS (Taiwan Stock Exchange

Corporation, 2011a). IFRS also covered the treatment of agriculture and mineral resources, which were not clearly addressed by Taiwanese GAAP.

3. RESEARCH METHOD

As mentioned earlier, no Taiwanese listed company chose to adopt IFRS early. This situation is extreme, and very different from that experienced in other countries. For example, in South Korea, whose economic and regulatory environments resemble Taiwan's, early adoption of IFRS was readily embraced and concluded [see Figure 1(a) and (f)]. Why was Taiwan different? To illustrate why, we will analyze the early adoption choice contemplated by Clevo. This company is especially interesting, because it was flagged as an exemplar of "early adopters" and was widely discussed in the financial media (Li & Chang, 2011). Thus, it was a matter of public knowledge that Clevo originally decided to adopt IFRS early [see Figure 1(c)], because of perceived new benefits arising from reporting its investment properties under IFRS (Li & Chang, 2011). However, because of a sudden change, in July 2011, in Taiwanese regulations [see Figure 1(g)], Clevo changed its mind at the last minute [see Figure 1(h)]. This case provides useful insights into factors influencing firms' willingness to adopt IFRS early.

Secondary data, including newspaper articles, publicly disclosed information and financial reports, were used in this paper to show how Taiwan's accounting regulator responded to Clevo's actions (and vice versa) during IFRS implementation processes. This paper uses a case study approach which is helpful for gaining a better and deeper understanding of events (Cooper & Morgan, 2008). The qualitative evidence presented in this paper will add to existing literature focusing on quantitative analysis.

4. CASE STUDY

4.1 Basic Information of the Clevo Company

Clevo was, and is, a large Taiwanese listed company, ranked fourth in importance by Taiwanese exports (Clevo Group, 2017a, 2017b). At the time of the key events we refer to, it had over 600 employees in the parent company, and over 4,000 employees in the whole group. It was founded in 1983 and had made its name by producing and providing clever solutions for laptop technologies. It continuously developed and manufactured laptops for promising markets, such as gaming, eco-mode, and high-end laptops. Further, it held 100% of the equity in Buynow firms, a retail chain active in several big cities in PR China. This retail chain generated revenue of New Taiwan Dollars (NTD) 5.75 billion in 2016. According to the annual reporting of the Clevo Group (2017b), its sales markets were diverse in recent years: 18% in Europe, 16% in America, 37% in China, and 29% in other Asian markets.

4.2 Intention to Adopt Early

In May 2009, Taiwan's FSC announced [see Figure 1(b)] the roadmap by which all listed Taiwanese firms had to adopt IFRS (mandatorily) from January 2013 [See Figure 1(j)]. It also said that companies could voluntarily adopt IFRS early from January 2012, [see Figure 1(i)], (Ernst & Young, 2017). The Taiwan Stock Exchange Corporation (2011a) supported that roadmap. Important to the background setting was the use of fair value under IFRS. This was expected to have a positive impact on many firms' prospects. Consequentially, using the fair value approach to evaluate *investment properties* was expected to bring high benefits to many Taiwanese companies (Liao, 2012), and to Clevo (Li & Chang, 2011) in particular. This was because the IFRS fair value method, which aims to reflect the *current value* in the markets, can generate higher values of investment properties, compared to the *incurred cost method* under Taiwanese GAAP. This leads to higher net asset values, which typically would improve a firm's stock market performance.

Clevo perceived this potential benefit, which explains its announcement in December 2009, [see Figure 1(c)], that it would adopt IFRS early from 2012 (Market Observation Post System, 2016). Furthermore, Clevo disclosed in November 2010 [see Figure 1(d)] that it expected its *book value* per share would rise hugely from NTD 13.07 to a predicted NTD 65.22, if it adopted

IFRS (Market Observation Post System, 2016). This was estimated to generate an NTD 32 billion increase in *book value*, were its investment properties to be measured *at fair value* under IFRS (Liao, 2012).

4.3 Stock Market Reaction and Policy Response

This Clevo announcement of November 2010 led to a sharp increase in trading volume and a positive stock market reaction (Taiwan Stock Exchange Corporation, 2017). Alas, it also attracted the FSC’s close attention. Consequently, one month after the above event, the FSC (2010) issued new guidelines on information disclosure under IFRS adoption [see the December 2010 point in Figure 1(e)]. This requested companies to “provide complete and relevant information” and to “specifically indicate that the estimated figures may change.” Further, because of the similar situation of investment properties valuation in other companies, the FSC (2011) decided in July 2011 that the subsequent valuation of investment properties should be done *at cost*, and crucially that the fair value method of IFRS would not be permitted (FSC, 2011) [see Figure 1(g)]. One month later, Clevo withdrew its application for IFRS early adoption [see the August 2011 point in Figure 1(h)]. It indicated that the amendment of accounting regulations in July 2011, which entailed large-scale revision to the company’s adoption processes, made early adoption impossible (Market Observation Post System, 2016). The Clevo case demonstrates the importance of the *fair value* approach under IFRS to companies’ early adoption strategies. Moreover, it demonstrates that frequent (or unexpected) changes in regulations can easily blunt incentives for companies to adopt IFRS early.

4.4 Regulatory Change

The above regulatory change of July 2011, proscribing the fair value approach for valuing investment properties, was the one to which Taiwanese listed companies necessarily complied in 2012 and 2013. By April 2014, the FSC (2014) had reconsidered the circumstances of the first year of IFRS implementation. Consequently, it revised again several regulations, which allowed companies to use the fair value method in the subsequent valuation of their investment properties [see Figure 1(k)]. This amendment was warmly welcomed by Clevo, which quickly announced [see Figure 1(l)] in May 2014 that their use of a fair value approach for the subsequent valuation of investment properties had been approved by the Board (Market Observation Post System, 2016).

Clevo also explained that this new valuation method would increase the value of its investment properties by NTD 56.369 billion on the 2013 consolidated financial statements. This shows that valuing investment properties at fair value promised huge benefits to Clevo, giving it a large incentive, at the time, to adopt IFRS early. If the FSC had not changed regulations at the last minute, Clevo would probably have adopted IFRS early, from 2012 onwards [see Figure 1(g) and (i)].

5. CONCLUSION

This paper investigates the extreme example of “reluctance” to adopt IFRS early in Taiwan, by analyzing the Clevo Company, which was widely known as a potential early adopter but withdrew at the last minute. This paper illustrates how firms which perceived net benefits would be likely to adopt IFRS early, but how uncertainties in regulations can stall such intentions. Hence, were accounting regulators to judge that early adoption would be beneficial to firms and to the economy, this option should be allowed, and not deliberately denied to companies. However, its policy effectiveness would depend on the capability of regulators both to design relevant regulations in a fitting fashion, and to avoid frequent changes in regulations. Furthermore, this case study shows how the fair value method under IFRS, which is distinct from traditional cost measurement, could significantly affect the reported results and hence influence companies’ choices in financial reporting standards. Investors should bear this in mind, and carefully evaluate firm performance, particularly when firms change their financial reporting standards. Our results should be of interest to national and international accounting regulators seeking to achieve the goals of accounting convergence and the enhancement of the quality of financial reporting.

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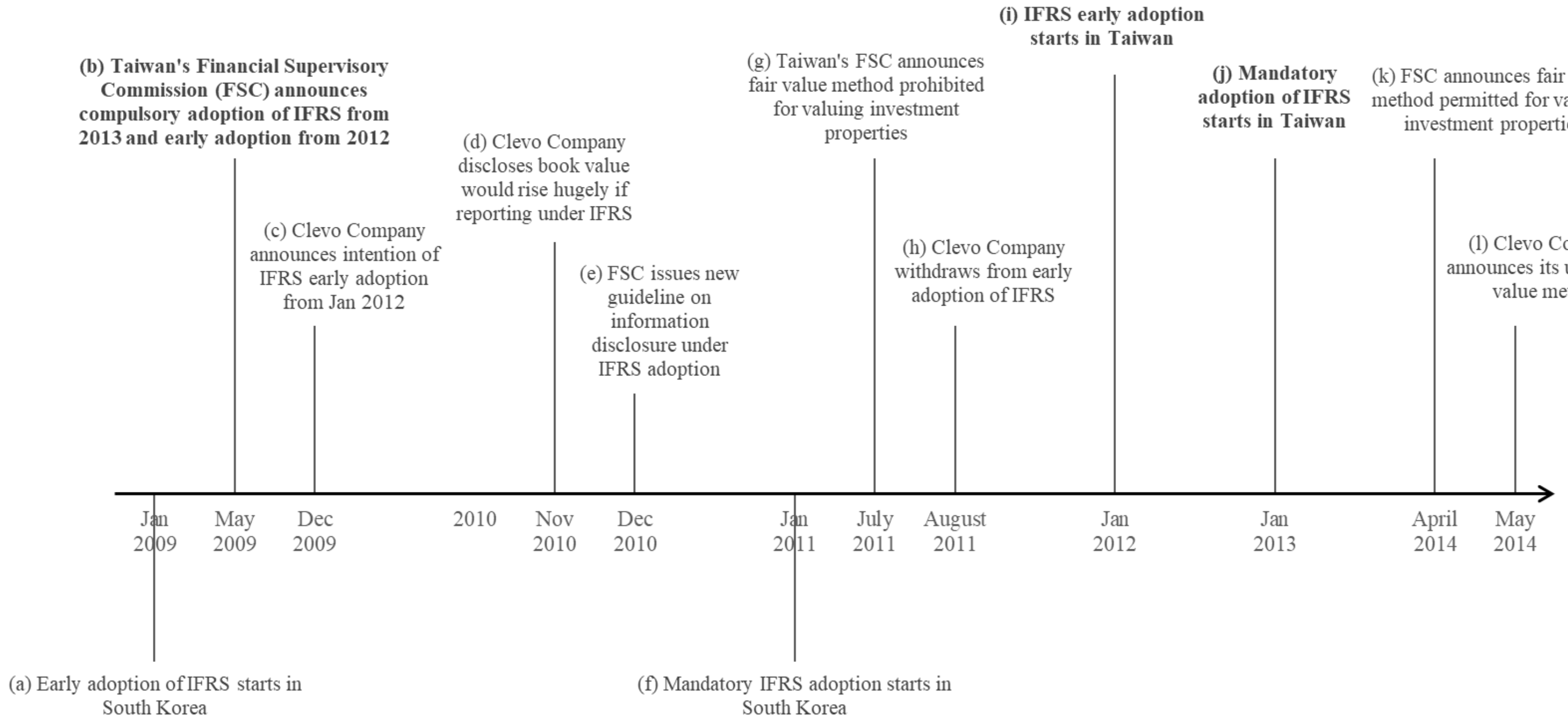
Figure 1: Timeline of important events



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