

**Chinese Accounting  
Standards Committee**

**Strengthening Cooperation to  
Promote International Convergence  
of Accounting Standards**

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**Hot topics**

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- **What are the benefits of the convergence?**
- **How to go about it?**
- **What obstacles will be encountered?**
- **How to overcome them?**

## **Important benefits of global accounting standards**

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- **Understandable financial statements.**
- **Comparable financial information.**
- **Speed the flow of capital worldwide.**
- **Reduced cost of capital.**

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## **China's achievements**

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- **Replaced the accounting model under planned economy with one appropriate for an evolving market economy.**
- **From 1993-2000, with funding from the World Bank, engaged an international accounting firm to provide consultancy services.**
- **Up to now, 16 specific standards issued.**

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## Chinese accounting standards already issued

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Related Party Transactions	Non-Monetary Transactions
Cash Flow Statement	Contingencies
Events after Balance Sheet Date	Intangible Assets
Debt Restructuring	Borrowing Costs
Revenue	Leases
Investments	Interim Reporting
Construction Contracts	Inventories
Accounting Policies	Fixed Assets

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## Convergence with IFRS/IAS

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- **The objective of financial statements – meeting the needs of investors and creditors as well as management and government.**
- **The quality of financial information – especially relevance and reliability.**  
*(continued)*

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## **Convergence with IFRS/IASs**

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- **Definitions of the elements of financial statement are consistent with the IASB Framework.**  
*Asset, liability, equity, revenue, etc.*
- **Recognition and measurement principles are generally similar to those in IAS.**      *(continued)*

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## **Convergence with IFRS/IAS**

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- **The Chinese financial reporting system is similar to the financial report in IAS 1:**  
*Same basic financial statements and note disclosures.*

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## **We recognise the importance of serving the securities market**

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- **Our objective is to improve the quality of financial information, and**
- **To reduce the need for adjustments:**  
*for example, minimise the adjustments needed for B share or H share listings and for commercial bank listings within China for which IAS financial statements are required.*

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## **Some inconsistencies between IAS and Chinese standards**

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- **Some inconsistency still exist:**  
*For example, cost or carrying amount sometimes is used for measuring special transactions that IAS would measure at estimated fair value.*

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## **Obstacles for Convergence**

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- **China is still in the process of economic transition:**
    - **Many related party transactions (many enterprises are still state owned).**
    - **Transaction prices are sometimes not market prices.**
    - **Special capital structures.**
- (continued)*

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## **Obstacles for Convergence**

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- **lack of effective corporate governance:**
    - **Resistance to corporate governance principles in a few enterprises.**
    - **Even when an enterprise is willing, sometimes it is difficult to effectively put the corporate governance systems in place.**
- (continued)*

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## **Obstacles for Convergence**

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- **Special structure of users of financial information:**
  - **Government is now the important investor and user of financial information.**
  - **A shortage of experienced financial analysts**  
*(continued)*

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## **Obstacles for Convergence**

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- **Some regulatory requirements of financial information focusing on minimum past performance:**
  - **IPO, profit for the past three years.**
  - **For new issues after listing, weighted average return on net assets should be 10% or higher for recent past three years, etc.**

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## **Situations in other countries**

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- **These obstacles probably exist in other developing countries, especially those economies in transition.**
- **Similar obstacles may exist in certain periods in developed countries.**

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## **A sensible approach for China today**

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- **On the one hand, take account of its realities, and**
- **On the other hand, do its best to get in line with IFRS/IAS.**
- **Try to balance these two approaches in its work to improve financial reporting in China.**

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## **Future events**

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- **China's market economy will develop even more quickly than before.**
- **More open to the outside.**
- **China will become more active in international cooperation.**
- **The pace of innovation accelerated.**

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## **Proposals**

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- **More involvement with IASB in setting international standards.**
- **As the largest developing economy in the world, we can provide a beneficial reference to other developing countries.**
- **Speed up accounting standards setting in China.**

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## Our objective

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- **Build a core Chinese accounting standards system in about three years.**
- **Keep in line with IFRS, except in cases where some IFRSs contradict Chinese law, or obviously don't meet Chinese realities.**

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## We are working on these additional projects

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Government Grants	Impairment
Presentation of Financial Reports	Banking
Earnings per Share	Financial Instruments
Segment Reporting	Agriculture
Foreign Currency Translation	Oil and Gas and Mining
Discontinuing Operations	Liquidation Accounting
Business Combinations	Insurance
Consolidation	Income Taxes

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## Suggestions for IASB

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- Give due consideration to the situation of countries in economic transition.
- Permit the choice of accounting policy, *most particularly, allow cost measurement when reliable fair value measures just are not available or a valuation profession is not developed.*

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## Suggestions for IASB

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- Give more guidance for applying IFRS/IAS – this will help ensure uniform practice.
- Give more clear background in order for people to understand IFRS well.

*(continued)*

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## **Suggestions for IASB**

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- **Provide authoritative training material on IFRS.**
- **Strengthen communication with national accounting standards setters – there are more than just the “Big-7” with whom IASB has “partnership” arrangements.**

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