**On theoretical engorgement and the myth of fair value accounting in China**

**Author Details:**

Christopher Nobes

*School of Management, Royal Holloway, University of London, London, UK; and*

*Business School, University of Sydney, Sydney, Australia*

 Corresponding Author’s Email: chris.nobes@rhul.ac.uk

**Acknowledgments:**

The author is grateful for encouragement from Lee Parker and for assistance from Kathryn Bewley (Ryerson University), Cameron Graham (York University, Toronto), Yvonne Kam (PwC, Shanghai), James Guthrie (Macquarie University), Tianran Liu (Royal Holloway), Richard Macve (LSE), Jianqiao Lu (IASB), Christopher Napier (Royal Holloway), Songlan Peng (York University, Toronto), Christian Stadler (Royal Holloway), Tim Wang (University of Sydney), Jason Xiao (Cardiff University), Ling Xiao (Royal Holloway), Eagle Zhang (University of Sydney), Wei-Guo Zhang (Tsinghua University), Na Zhao (Royal Holloway), and two anonymous reviewers.

**Structured Abstract:**

**Purpose**

This paper contains ‘Comments’ on two previous papers in this journal about fair value in Chinese accounting, and it extends those papers by considering developments since 2006.

**Design/methodology/approach**

The paper analyses the contents of Chinese accounting standards, dividing the references to fair value into several different categories. This analysis is compared to the findings of the two previous papers. The paper then re-assesses the evidence about the alleged pressures from international institutions on China.

**Findings**

The two previous papers greatly overstate the importance of fair value in Chinese accounting, partly through misinterpreting Chinese standards and partly because of a lack of caveat that instructions about fair value often relate to special circumstances or unusual companies. The theorising about Chinese enthusiasm for fair value is misguided: I suggest that China became keen to adopt international standards despite their use of fair value not because of it, and that China removed much of the fair value when it adapted international standards. My extension of the analysis beyond 2006 provides a fuller coverage but does not alter the conclusions.

**Research implications**

The earlier of the two papers examined has been extensively cited. Researchers need to be warned that the technical content and the conclusions of both papers are questionable. Authors should define terms clearly and should provide sufficient reference detail to enable readers to check findings.

**Practical implications**

Multinational companies, auditors and financial analysts should not be misled into thinking that Chinese accounting makes extensive use of fair value accounting.

**Originality value**

This paper critically re-assesses two previous papers, starting with detailed technical data and moving through to the influence of international institutions. This paper also newly extends the analysis of Chinese standards beyond 2006.

**Keywords:** China, fair value, accounting standards

**Article Classification: Research Comment**

*For internal production use only*

**Running Heads:**

**On theoretical engorgement and the myth of fair value accounting in China**

**1. Introduction**

 Guthrie and Parker (2017, p. 9) confront the “theoretical engorgement” which they detect in attempts by some authors to explain accounting phenomena. They worry (p. 11) that the concentration on theory by some authors amounts to goal displacement or window dressing, such that a paper’s subject matter and empirics are buried. I go one stage further here: I identify a case where extensive theorisation has been used to explain a phenomenon which (I will argue) does not exist.

A common subject of academic papers is “fair value accounting” (FVA). In addition to many empirical papers about the economic effects of FVA, there are also conceptual papers designed to explain its onset or opposition to it (e.g. Bengtsson, 2011; Power, 2010). Such papers are seldom precise about whether or how FVA is applied beyond financial assets. However, in this journal, Peng and Bewley (2010; hereafter PB) and Bewley, Graham and Peng (2018; hereafter BGP) deal with the full range of accounting standards in the context of China. PB claim that, of the 38 Chinese standards issued in 2006:

…. 25 require or allow the direct or indirect use of fair value. Of these 25, 17 require the use of fair value in the initial measurement of assets and liabilities, eight require its use in subsequent measurement of assets and liabilities, 11 require it in asset impairment testing, and 17 require it in other uses such as disclosure of fair value in accounting measurements and financial reporting, and allocation of lump-sum cost … (p. 988)

This helpfully distinguishes between different uses of fair value, but I will show that it greatly overstates the amount of fair value measurement required in these various categories. This matters because PB has been frequently cited.[[1]](#footnote-1) For example, Ho, Liao and Taylor (2015, p. 302), as part of setting up hypotheses, misquote PB as stating that “25 of 38 new standards require or allow companies to use fair value accounting” rather than that the standards involve a mixture of uses of fair value. This misquotation is not surprising, because there is no definition of FVA in PB. Habib (2015, p. 3) quotes the same numbers more accurately; and Shan and Troshani (2016, pp. 210-211) cite PB numerous times when motivating their study. If my analysis is correct, future researchers should be warned to interpret PB carefully.

 The overstatement in PB also matters because it forms the data for BGP, who do not define FVA or give readers any example of a Chinese standard which requires FVA but rely on PB when referring repeatedly to the “adoption of FVA”, using the acronym “FVA” over 160 times. BGP say (p. 1257) that the phenomenon which motivates their study is China’s “aggressive reintroduction” in 2006 of “fair value standards”. The word “reintroduction” refers to the fact that some use of fair value had been required in the standards which were in force briefly from 1998 to 2000; a point to which I return later. Although it is clear that references to fair value in Chinese standards greatly increased in 2006 (at least compared to the standards of 2001 to 2006), my analysis casts doubt on the existence of a phenomenon of aggressive reintroduction and on whether China really was “seeking admission for FVA” (BGP, p. 1262), had an interest in “driving FVA ahead” (p. 1266), had a “fair value reform movement” (p. 1268), and saw “actors promoting FVA” (p. 1273). BGP have an extensive theory to explain China’s alleged enthusiasm for FVA, comprising key actors, political opportunities, resource mobilisation and framing. This takes 12 pages to outline, about half of their paper. Thus, BGP use a deal of theory to explain a phenomenon whose existence I question, as explained in detail below.

 In this paper, I first give brief examples of the various uses of fair value in financial reporting. Then, in Section 3, I undertake my own analysis of how much fair value was required or allowed by the Chinese standards issued in 2006, and I find that it falls far short of the above claims. I am most grateful for the assistance of Songlan Peng and Kathryn Bewley in my attempt to explain the gap. In Section 4, I suggest that BGP’s theorisation does not fit with a willingness to adopt FVA but with a willingness to adopt International Financial Reporting Standards (IFRS) despite, rather than because of, this bringing some FVA with it. In Section 5, I offer a further contribution, as follows. PB (of 2010) stop with the Chinese standards issued in 2006, because no amendments had been issued by then. BGP (of 2018) seek to explain the phenomenon of 2006, and therefore do not mention the changes to Chinse standards which were introduced later. However, readers should be aware that there have been major new standards and amendments, issued from 2014 onwards. I up-date the analysis for standards issued by the middle of 2019, but I find very little increase in FVA. In Section 6, I draw conclusions.

**2. What is “fair value accounting”?**

 The term “fair value” means a current market exit price (of selling an asset or being relieved of a liability).[[2]](#footnote-2) The most obvious meaning of “fair value accounting” is measurement of an asset or a liability at fair value each time a balance sheet is prepared, with the implied gains or losses recognised as a form of income or expense. In the quotation reprinted in Section 1 above, PB correctly call this “subsequent measurement” at fair value (e.g. it is called that in IFRS 9 *Financial Instruments*, section 5.2). It can also be called “measurement after recognition” at fair value (e.g. as in IAS 16 *Property, Plant and Equipment*, paragraph 31). This meaning of FVA can be contrasted to historical cost accounting. However, PB and BGP seem to use “FVA” to encompass more than just “subsequent measurement at fair value”. Therefore, to avoid confusion, I will use the abbreviation “SMFV” for this specific use.

 The words “subsequent” and “after” in the above terminology hint that there are other uses of fair value measurement which are quite different from SMFV. These other measurement uses, which are included in PB’s list above, are: (i) as an estimate of an asset’s[[3]](#footnote-3) initial cost when the asset is not obtained in a market or when the asset is acquired with other assets for a single price (e.g. the need to estimate the costs of each of a hundred assets acquired when buying a new subsidiary for a single amount of cash), and (ii) as an estimate of how much of an asset’s initial cost remains when the asset has been damaged (e.g. the measurement of inventory at the lower of cost and market). PB and BGP sometimes use “FVA” to include these two practices (e.g. PB, p. 985, and BGP, p. 1260), though they are really one-off estimates of cost (of initial cost or of cost still recoverable) which are used as part of historical cost accounting.

**3. How much FVA did the Chinese standards of 2006 require?**

*3.1 Introduction*

For the purposes of this section, I use the standards of 2006, as do PB. Subsequent changes to the standards are discussed in Section 5. PB and BGP refer to “Chinese Accounting Standards” (CAS) but some authors[[4]](#footnote-4) call them “Accounting Standards for Business Enterprises” (ASBEs), which is a more proximate translation[[5]](#footnote-5) of the title of the documents, so I use “ASBE” from now on. BGP do not use the term “Accounting Standards for Business Enterprises”[[6]](#footnote-6) but they mistakenly report (in their Table I) that the confusingly similarly named “Accounting System for Business Enterprises” was introduced in 2006, though actually it was *superseded* then.[[7]](#footnote-7)

The Appendix to this paper records my scores for the references to fair value in ASBEs. The scores are explained below. Information in italics and square brackets in the Appendix relates to changes after 2006, and these are discussed later, in Section 5. The sources of the information are shown at the foot of the table in the Appendix, and they are all publicly available at the time of writing.

*3.2 Initial measurement at fair value*

I start by identifying standards which involve initial measurement at fair value. The widespread example of this is where, under ASBE 20, the assets and liabilities of newly acquired subsidiaries are recognised at initial cost (to the acquirer) by estimating fair values at the date of acquisition, and this “cost” is subsequently used as part of historical cost accounting. Although this involves the term “fair value”, it is vital to distinguish it from SMFV. Unlike SMFV (which is continuous measurement at fair value), initial measurement is a one-off use of fair value to estimate cost, and it was introduced in many countries well before any discussion or practice of SMFV.[[8]](#footnote-8)

Column 2 of the table in the Appendix concerns this use of fair value to estimate initial cost. As may be seen, I score ASBE 20 as one of 12 standards which involve initial measurement at fair value at least for some assets or under some circumstances. By contrast, PB state that “17 require the use of fair value in the initial measurement” (as quoted above). The scores are different because PB counted ASBE 24 even though it does not deal directly with measurement but merely sets out criteria for allowing hedge accounting (see 3.6 below), and PB erroneously included the major asset standards, ASBEs 1, 4, 5 and 6. This is because they believed[[9]](#footnote-9) that cost and fair value are the same at initial recognition, and thus they deliberately scored “fair value” even though the standard requires “cost”. However, these two measures are not the same in principle, nor generally in practice. To take the example of inventories, ASBE 1 requires “cost” to include not only the market price of buying but also various taxes, handling fees and insurance (Article 5). Similarly, the “cost” of tangible, intangible and biological assets includes taxes and legal fees of purchase. So, cost is nearly always higher than fair value at initial recognition.

Two details should also be mentioned. The asset standards[[10]](#footnote-10) refer to the possibility of purchase contracts which are unfair but the standards do not explain what this means or state what should then be done, so I do not consider this to be a use of fair value measurement. Also, ASBE 4 (Article 8) deals with the purchase of more than one item for a single cost. That cost should be split up in proportion to the fair values of the purchased assets, but this means that the assets are held at proportions of the cost not at fair value. This is recorded in column 6 of the Appendix.

A vital overall point about initial measurement is that PB’s words “require the use of fair value” could easily be misunderstood by readers. As column 2 of the Appendix shows, the requirement in several standards relates only to particular assets or to special circumstances, such as paying for an asset (or receiving a government grant) in a form other than cash.

*3.3 Subsequent measurement at fair value*

I now turn to SMFV, as defined in Section 2. PB state, about fair value in Chinese standards, that: “eight require its use in subsequent measurement” (as quoted Section 1). Let us ask some precise questions: (a) how many of the 38 standards *require* SMFV for all the items they cover? (b) how many standards *require* SMFV for at least some items? and (c) how many other standards *allow* SMFV for some items? The Appendix addresses those questions in its columns 3 and 4.

Inspection of column 3 shows that no standard issued in 2006 requires SMFV for all the assets or liabilities it covers, but four of the standards require SMFV for some items or under some circumstances. However, even this might give readers an exaggerated impression about the scope of SMFV because three of those four standards (ASBEs 10, 11 and 22) deal with the same type of asset: sub-categories of investments, including equities.[[11]](#footnote-11) One of those three standards (ASBE 11) only requires SMFV for a special type of item: cash-settled share-based payments. The fourth standard which might require SMFV under some circumstances (ASBE 5) deals with biological assets. However, it requires historical cost accounting (Article 6) unless there is “conclusive evidence” that fair value can be measured reliably on a continuing basis (Article 22). By contrast, the analogous part of IFRS makes “a presumption that fair value can be measured reliably for a biological asset” (IAS 41 *Biological Assets*, para. 30). Xiao and Hu (2017, Table 3) survey 147 Chinese companies and find that, of the few companies in their sample which had biological assets, none of them used SMFV.

 Why do I score only these four standards as *requiring* SMFV when PB scored eight? PB erroneously include ASBEs 3, 23, 24 and 27.[[12]](#footnote-12) The first of these, ASBE 3, involves an *option* not a requirement to use SMFV for investment property. It is therefore discussed in my next paragraph. ASBE 23 concerns *initial* measurement (not SMFV) of transferred assets, so it is included in the scores in column 2 of the Appendix. ASBE 24 concerns criteria for allowing hedge accounting rather than itself requiring or allowing SMFV, so it is included in column 6 and in 3.6 below. ASBE 27 concerns extractive industries and, like the main standards on tangible and intangible assets (ASBEs 4 and 6), it requires the cost basis.[[13]](#footnote-13) Songlan Peng has kindly confirmed that this was an error in PB.[[14]](#footnote-14) Unlike PB and BGP, I provide in the Appendix the detailed references within the standards, so that readers can check my conclusions.

Is SMFV *allowed* by ASBEs for any other type of asset? Column 4 of the Appendix shows that permission to use SMFV is only extended to two further types of asset, both investments: some types of financial instruments for which ASBE 22 does not already require SMFV, and investment property (ASBE 3). However, whereas IAS 40 (paragraph 30) offers a free choice of SMFV for investment properties but for “exceptional cases”,[[15]](#footnote-15) ASBE 3 (Article 10) constrains that option by requiring “conclusive evidence” about the continuing reliability of fair value measurement, including the existence of an active market. Indeed, there is evidence that SMFV is little used for investment properties under ASBE 3. For example, Beijing North Star prepares both IFRS and ASBE financial statements, choosing SMFV under IFRS but using cost under ASBE 3.[[16]](#footnote-16) PB (p. 997) found that only 3% of Chinese companies in their sample chose SMFV for investment properties in 2007 and 2008. Xiao and Hu (2017, p. 13) find that only 8.6% of Chinese companies which had investment properties used SMFV to account for them in 2007 to 2011.[[17]](#footnote-17) In conclusion, PB record ASBE 3 as *requiring* SMFV, whereas fair value is actually only a constrained option, and is rarely used.

 We can now summarise the position on SMFV. PB report that eight Chinese standards of 2006 require SMFV, but my assessment above is that SMFV is only required by four standards[[18]](#footnote-18) and is allowed by a further one.[[19]](#footnote-19) The assets concerned are certain types of investments and biological assets. Furthermore, for the assets other than financial instruments, the use of fair value is constrained by tough conditions about reliability. This is a far cry from the impression given by BGP (see the quotations above in Section 1). In practice, SMFV is generally restricted to a sub-set of financial assets because the other assets seldom meet the reliability threshold. The two empirical surveys quoted above[[20]](#footnote-20) confirm for particular assets the scarce use of fair value. Yang, Clark, Wu and Farley (2018, p. 24) observe more generally that: “Historical cost accounting dominates accounting practice in China; not many companies surveyed chose to use fair value accounting”.

*3.4 Reconciling our scores?*

One way of trying to reconcile PB’s analysis with mine would be to assume that, when PB refer to the use of fair value “in the initial measurement of assets and liabilities” or “in subsequent measurement”, they are carefully writing “in” rather than “for”. That is, this would assume that PB are including cases where fair value is not the measurement basis but where fair value is sometimes referred to, however rarely, in the measurement process.[[21]](#footnote-21) This would fit a research goal of trying to show a great increase in the use of fair value in 2006. However, it does not fit PB’s own description of their findings. For example, PB unambiguously say that: “a majority of assets and liabilities are required to be measured at fair value at initial recognition” (p. 988); and “at fair value” appears four times on that page. Thus, whenever PB are clear, they can be seen to have adopted the same meaning as I have: we are all purporting to assess the prevalence of requirements or permission to measure assets *at* fair value. On this basis, I confirm my above assessment that PB overstate the prevalence of the requirement to use fair value for initial and for subsequent measurement.

*3.5 Fair value used when lower than cost*

We can now turn to the final use of fair value for asset measurement: standards in which fair value is sometimes used for subsequent measurement but only when fair value is lower than cost, principally because of impairment. PB state that “11 require it in asset impairment testing”, but this high number is caused by PB scoring all the asset standards irrespective of whether or not their impairment tests involve fair value, as I will explain. By dramatic contrast, column 5 of my Appendix shows only three standards of 2006 which impose reference to fair value in this context of physical or economic damage to assets.

 PB’s wording on this issue (about requiring fair value in impairment *testing*) needs to be de-constructed. It implies, correctly, that the impaired asset is not necessarily actually *measured* at fair value, but that fair value is considered along the way. The simplest example of this is the “lower of cost and net realisable value” rule for inventory measurement in ASBE 1. Here, net realisable value (which could be seen as a version of fair value)[[22]](#footnote-22) is sometimes used, but it is not the *required* measurement basis for inventories because it is only used when it is lower than cost. Although this compound measurement basis involves reference to a version of fair value, it should surely not be called FVA because the inventory is never valued above cost. A similar result arises when “fixed” assets are expected to be sold, as recorded for ASBE 4 in column 5 of the Appendix.

Thus, I score ASBEs 1 and 4 in column 5. My third “impairment” score is for the general standard on impairment, ASBE 8. However, under that standard the use of fair value to measure an impaired asset is conditional on four things about the asset: (a) observing an indication of impairment, (b) fair value being higher than discounted cash flows (DCF) and therefore being the recoverable amount, (c) the recoverable amount being lower than the previous carrying value, and (d) the fair value being measurable reliably (Articles 6 to 8). As a result of this quadruple conditionality, the use of fair value to measure impairment might be rare, though company disclosures do not enable one to check this (Xiao and Hu, 2017, p. 13). In fact, as long as DCF is found to be higher than carrying amount, it is not necessary to estimate fair value at all. So, fair value is not the *required* measurementbasis under ASBE 8 (because of the four conditions), nor is it the required basis if an impairment is actually recorded (because DCF might be used) and nor does an entity necessarily even need to estimate fair value as part of *testing* for impairment (if DCF is found to be higher than carrying amount).

Thus, for the general impairment standard, fair value does not necessarily even need to be *considered* in the process of impairment. So, PB’s “required” is incorrect for several of their 11 standards[[23]](#footnote-23) even for impairment testing, let alone for impairment measurement. Even if PB had meant “impairment *sometimes* involves *considering* fair value”, I would suggest not scoring each asset standard for this, because those standards[[24]](#footnote-24) send readers to ASBE 8, which PB and I also count as involving fair value. If a standard does not mention fair value but sends readers to another standard which does, I score only the latter, in order to avoid double-counting. On this last issue, my preference is a matter of opinion. However, ASBE 27 (*Extractive Industries*), although generally relying on ASBE 8, has its own particular impairment test for unproven rights (Art. 7). This involves fair value, so I also score ASBE 27 in column 5.

Finally, another reason for the difference in our scores is that, in a few cases, PB recorded a score for fair value even though the impairment process does not even “involve” fair value.[[25]](#footnote-25)

*3.6 Summary on uses of fair value in the ASBEs of 2006*

In sum, five ASBEs of 2006 require or allow SMFV for some assets, sometimes relating to special cases and sometimes imposing tough conditions. Two of these standards[[26]](#footnote-26) plus a further ten require initial measurement at fair value (for several of them, only under special circumstances). A further four standards sometimes involve *consideration of* fair value in the context of measurement below cost. This comes to 19 of the standards.

Thus, according to the Appendix, the other half of the ASBEs of 2006 neither require/allow SMFV nor otherwise lead to measurement at fair value under some circumstances. One further standard, already mentioned in passing above, does “involve” fair value (ASBE 24; see column 6 of the Appendix) but was not scored above because it does not itself require or allow measurement at fair value. Finally, some of the scored standards plus a further two require *disclosures* about fair values. That is, as recorded in column 6 of the Appendix, ASBEs 30 and 31 require a note if income or cash flows from operating activities relate to a change in fair value, though the discussion in Section 3.3 suggests that it must be rare for *operating* activities to include changes in fair value, except in financial institutions. In many cases, the standards discussed in this section also require disclosures about fair value, but I have not scored those standards in column 6 because the disclosures relate to entries in other columns for the same standard.

Table I summarises the discussion of this section. Its column 1 lists the various uses of fair value. Column 2 records PB’s scores for these uses from their Table I. Column 3 records my scores, as discussed in this section, relating to the same standards.

*[Insert Table I near here.]*

**4. Did China want FVA or did it want IFRS?**

We can now turn to BGP’s analysis. BGP do not provide information that would enable readers to consult the Chinese standards or a commentary on them. BGP refer (p. 1275) to electronic documents by “Li” and “Liu”, which might have contained relevant information about the standards but are no longer available. BGP report that they accessed those documents in January 2008, presumably because the documents were no longer available when they wrote their 2018 paper. BGP thus refer us back to PB when they report that China issued 38 standards in 2006, of which “25 require or allow fair value” (BGP’s Table I) and “at least 27 involved fair value” (p. 1261). On this basis, BGP infer great Chinese enthusiasm for FVA, as quoted in my Section 1. However, I have shown in Section 3 that only five standards require or allow FVA in its full sense (SMFV), that SMFV only applies to some of the items covered by those standards, and that some of those standards impose tough conditions that severely constrain the use of SMFV. Some other standards involve fair value measurement in certain circumstances as part of historical cost accounting.

In this section, I suggest that BGP have their proposition the wrong way round. I suggest that China did not become enthusiastic about FVA but, instead, became enthusiastic about IFRS. Then, as part of approximately adopting IFRS, China reluctantly adopted some of the FVA in IFRS but deleted or downgraded other bits of FVA. Table II provides the evidence for this latter point by examining the relevant differences between ASBEs and IFRS in 2006. Such differences are not specifically mentioned by BGP but some are listed by PB in their Table III, though three of its nine items are in error.[[27]](#footnote-27)

*[Insert Table II near here.]*

 As my Table II shows, the Chinese adaptation of IFRS eliminated fair value or constrained its use in eight ways. The first six of these restraints on fair value concern the full-scale version of FVA (called SMFV in this paper). Item 7 relates to the only type of non-financial asset for which IFRS generally requires a version of fair value for initial measurement. Item 8 relates to the Chinese ban on reversals of impairment, which avoids the need to re-assess recoverable amount which, as discussed in 3.5 above, can involve fair value.

 This reluctance to introduce SMFV in China, largely confining the practice to a subset of financial assets, fits well with BGP’s information about the attitudes of Chinese officials. BGP tell us (p. 1274) that a Vice-Minister assured his audience that “the new Chinese Accounting Standards have set up many restrictions to the application of fair value accounting”. BGP also note (p. 1271) that a Vice-Minister stated that full adoption of FVA “does not fit in the general conditions of China”. BGP could have added that the Vice-Minister’s example of unreliable prices in an antiques market is irrelevant because IFRS does not require SMFV for antiques and it probably would not allow it.[[28]](#footnote-28) The point is that one cannot show that fair value is unreliable for an asset for which SMFV is required (e.g. equities) or for another asset for which it is allowed (e.g. investment property) by giving an extreme example of a volatile market for a type of asset for which SMFV is not proposed by the IASB or by anybody else.

 BGP discern a coalition of actors which allegedly put momentum behind China’s adoption of FVA: the World Trade Organization (WTO), the World Bank and the global accounting firms. However, BGP (p. 1268) make it clear that the WTO required China to accept international standards rather than to accept FVA, though convergence brought some FVA as a knock-on effect. I suggest that the same applies to the other two actors and to China. That is, instead of developing an enthusiasm for FVA, they became convinced that Chinese standards should converge with IFRS. This latter issue, surely, was the motivation for pressure on China from the World Bank, as various remarks by BGP imply (pp. 1264, 1269, 1270). Similarly, although BGP imply (p. 1278) that China was influenced by support for FVA from the global accounting firms, BGP offer no evidence that the firms supported FVA or that China was thus influenced. BGP’s three references in the sentence on this matter (Hopwood, 1994; Sikka, 2001; and Arnold, 2009) discuss the firms’ support for global standards rather than for FVA. Indeed, none of the references mentions China at all. The first two do not mention FVA either, though the third (Arnold, 2009) does so once (p. 59) in the context that financialisation drove it, but the paper is about the internationalisation of accounting not about FVA or China.

 My conclusion accords with that of Yang et al. (2018, p. 22): “Fair value measurement was introduced in 2006 CAS in China in a very cautious way by the Chinese government in its efforts to harmonise with IFRS standards”. Indeed, PB themselves start by referring to “China adapting to fair value (FVA) accounting as part of its overall convergence with International Financial Reporting Standards” (p. 982) but they gradually shift to “adopting and implementing IFRS FVA” (p. 984) and conclude with “adoption of FVA” (pp. 1003, 1007). BGP’s paper carries on from PB’s conclusion but would have fitted better with PB’s starting point.

**5. Changes to Chinese standards since 2006**

 BGP focus on trying to explain the changes of 2006. Thus, even though their paper was published in 2018, they do not tell us that several of the Chinese standards were withdrawn, some amended and some newly issued from 2014 onwards. For example, in order approximately to follow the IASB’s new standards on group accounting (i.e. IFRSs 10 to 12), ASBE 33 was amended and ASBEs 40 and 41 were issued in 2014. Readers might find it useful to see an extension of the analysis of ASBEs to include the changes after 2006, up to the middle of 2019. I provide that here, and it also enables an assessment of whether the alleged “aggressive” onset of FVA eventually arrived after a delay of more than a decade.

 The Appendix shows, in italics and square brackets, the changes to SMFV and to the other uses of fair value, which occurred in 2014, 2017 and 2018. As may be seen, for the use of fair value for initial measurement (see column 2), there is a *decrease* in that it is no longer sometimes used by lessees to measure leased assets (ASBE 21), but there is an increase in the special case of non-monetary employee benefits (ASBE 9).[[29]](#footnote-29) There is very little extension of SMFV (see column 3): only (i) ASBE 9’s new instruction to measure pension plan assets at fair value in those rare[[30]](#footnote-30) Chinese companies which run defined benefit pension plans, and (ii) ASBE 33’snew instruction that the subsidiaries of a special type of company (investment entities) should be accounted for with SMFV rather than consolidation. There are no additions to column 4 on *permission* to use SMFV. At first sight, there is an addition to column 5 (use of fair value when lower than carrying amount), but this relates to ASBE 42, which replaces the same instruction that was in ASBE 4, though broadening it from tangible fixed assets to other formerly non-current assets which are about to be sold. There are two increases for ‘other uses’ in column 6.

 In sum, in the decade or so after 2006, there was on balance a slight extension to various uses of fair value, though this might not affect most companies in most years. Table I’s column 4 records the position for 2018, showing the slight net increase from the 2006 scores of column 3.

**6. Conclusions**

 Guthrie and Parker (2017, p.11) fear that sometimes a paper’s subject matter and empirics are displaced by theory. I suggest that BGP is an example of this: many pages are devoted to theory, but the subject matter is left vague. BGP mention FVA over 160 times in the context of China’s accounting reform of 2006, claiming that 25 out of 38 standards require or allow fair value, but they do not distinguish measurement at fair value at each balance sheet (called SMFV here) from standards that “involve” fair value in various ways as part of historical cost accounting or as disclosures. BGP’s purpose is not to analyse the Chinese standards technically, so they rely on an earlier paper (PB) which attempts that, but greatly overstates the amount of SMFV and the other uses of fair value.

I show that only four of the original Chinese standards (not eight as claimed by PB) *required* SMFV for some items, and one more standard *allowed* it. Some of the other standards entail fair value measurement as part of the historical cost system, when initial cost is hard to measure or when cost has become too high a measure because of impairment. I have a lower score than PB for initial measurement at fair value and a much lower score than PB for fair value in the context of impairment. Table I (columns 2 and 3) summarises the differences in our scores. The differences on initial and subsequent measurement cannot be reconciled by differently specified scopes of “use of fair value” because we all specify “measurement *at* fair value”.

Nevertheless, my total score for the standards which sometimes involve measurement of assets or liabilities at fair value comes to 19, and a further three standards require disclosures about fair value under rare circumstances or refer to fair value in other ways. Thus, I could agree with PB and BGP that a slight majority of the standards “involve” fair value. However, stating that 22 (or 25 or 27) of the 38 Chinese standards “involve fair value” may be true, but it is not fair unless an author makes clear that mostly the involvement is not the compulsory use of fair value as a continuing measurement basis (SMFV) and that the use of fair value often relates to unusual companies or special circumstances. Column 3 of Table I records the uses of fair value in this more granular way.

Another general issue is that some of PB’s scores are based on the notion that fair value can be the same as cost. However, if the two are the same or nearly the same or often the same, then the whole of BGP evaporates because that paper rests on fair value being importantly *different* from cost: BGP describe FVA as a measurement system which has departed from the former transaction-based approach (p. 1261). Fortunately for the survival of part of BGP’s thesis, fair value and cost are different in principle: the former is a current exit value, whereas the latter is an historical entry value. They are also different in practice because few markets are perfect and because, even in highly active markets, “cost” is defined as being grossed up by many items and is therefore usually initially above fair value.

 One further general issue is the choice of starting point of the analysis of change. PB focus on the changes of 2006 and the resulting accounting practice, though they mention standards of 1998 which “contained limited introduction of FVA”.[[31]](#footnote-31) BGP take a longer view, including a brief discussion of the 1998 standards (e.g. see BGP’s Table I). It is not clear from this (or from other sources, such as Chen, Sun and Wang, 2002) exactly how much fair value was involved in the 1998 standards, though Chen et al. (2002, p. 184) record examples of fair value requirements similar to BGP’s, and they report that the 1998 standards were designed “to eliminate important discrepancies between Chinese GAAP and IAS”. Thus if PB or BGP had prepared a 1998 table using the same broad approach to fair value as for PB’s Table I relating to 2006, they might have recorded extensive reference to fair value in 1998,[[32]](#footnote-32) thus rendering the story of change in 2006 less dramatic.

In conclusion, although there was a major change to Chinese standards in 2006 (at least compared to those immediately preceding them), including many references to fair value, the move to fair value was nowhere near as extensive as summarised by PB in the quotation in my Section 1. It should therefore not be seen (in BGP’s terms) as an “aggressive reintroduction” of fair value, “seeking admission for FVA”, “driving FVA ahead” or Chinese “actors promoting FVA”. For this to have been the case, it is not enough to show that several of the standards mention fair value, because this is mostly in the context of disclosures or of estimating initial or unimpaired cost. Instead, the increased reference to fair value from 2006 can be characterised in the opposite way. That is, China did not become keen to adopt FVA but keen to adopt IFRS while remaining unkeen on FVA. As a result, China compromised its convergence with IFRS by deleting or downplaying the FVA content of IFRS (as recorded in Table II). The case study data offered by BGP fit well with this reversed proposition. Surveys of Chinese practice confirm the very limited use of fair value.

This paper also up-dates PB and BGP by considering the many changes to Chinese standards since 2006. Table I’s column 4 records that there has been only a slight net extension of SMFV and other uses of fair value, and that this also relates to unusual companies or special circumstances. Thus, the above conclusions stand.

 Three overall lessons emerge for us as authors or as reviewers of journal papers. First, it would be useful to define key terms (such as, in this case, “fair value accounting”) with precision, and to stick exactly to definitions throughout a paper. Secondly, data (such as, in this case, analyses of the contents of accounting standards) need to be presented in such a way that they can be checked by readers, by providing enough information about where to find the documents and which pages or paragraph numbers are relevant. Thirdly, we should be alert for the conflation of FVA and IFRS (or a gradual shift between the two in a paper). For most companies, IFRS practice contains little use of FVA (in the sense of SMFV), and practice under ASBEs contains even less.

**References**

Arnold, P. (2009), “Institutional perspectives on the internationalization of accounting”, in Chapman, C., Cooper, D. and Miller, P. (Eds), *Accounting, Organizations, and Institutions: Essays in Honour of Anthony Hopwood*, Oxford University Press, Oxford, pp. 48-65.

Bengtsson, E. (2011), “Repoliticalization of accounting standard setting – the IASB, the EU and the

global financial crisis”, *Critical Perspectives on Accounting*, Vol. 22 No. 6, pp. 567-580.

Bewley, K., Graham, C. and Peng, S. (2018), “The winding road to fair value accounting in China: a social movement analysis”, *Accounting, Auditing and Accountability Journal*, Vol. 31 No. 4, pp. 1257-1285.

Chen, S., Sun, Z. and Wang, Y. (2002), “Evidence from China on whether harmonized accounting standards harmonize accounting practices”, *Accounting Horizons*, Vol. 16 No. 3, pp. 183-197.

Deloitte (2006), *China’s New Accounting Standards*, Deloitte, Hong Kong. Available at: <https://www.iasplus.com/en/publications/china/other/pub1136> (accessed 19 September 2018).

ESMA (2011), *Supplementary Progress Report on the Equivalence of Chinese Accounting Standards with International Financial Reporting Standards*, European Securities Markets Authority, Paris. Available at: [http://www.europarl.europa.eu/RegData/docs\_autres\_institutions/commission\_europeenne/comitologie/info/2011/O018009-01/COM-AC\_DI(2011)O018009-01(ANN2)\_EN.pdf](http://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/comitologie/info/2011/O018009-01/COM-AC_DI%282011%29O018009-01%28ANN2%29_EN.pdf) (accessed 19 September 2018).

Evans, L. (2018), “Language, translation and accounting: towards a critical research agenda”, *Accounting, Auditing and Accountability Journal*, Vol. 31 No. 7, pp. 1844-1873.

Guthrie, J. and Parker, L.D. (2017), “Reflections and projections. 30 years of the interdisciplinary accounting, auditing and accountability search for a fairer society”, *Accounting, Auditing and Accountability Journal*, Vol. 3 No. 1, pp. 2-17.

Habib, A. (2015), “The new Chinese accounting standards and the audit lag”, *International Journal of Auditing*, Vol. 19 No. 1, pp. 1-14.

Ho, L., Liao, Q. and Taylor, M. (2015), “Real and accruals-based earnings management in the pre- and post-IFRS eras: evidence from China”, *Journal of International Financial Management and Accounting*, Vol. 26 No. 3, pp. 294-335.

Hopwood, A.G. (1994), “Some reflections on ‘the harmonization of accounting within the EU’ ”, *European Accounting Review*, Vol. 3 No. 2, pp. 241-253.

ICAS (2010) *Chinese Accounting Reform: Towards a Principles-based Global Regime*, Institute of Chartered Accountants of Scotland Edinburgh; available at <https://www.iasplus.com/en/binary/china/1006icaschinaaccountingreform.pdf> (accessed 22.2.2019).

Mirza, A.A. and Ankarath, N. (2012), *International Trends in Financial Reporting under IFRS: including Comparisons with US GAAP, China GAAP and India Accounting Standards*, Wiley, Hoboken, NJ.

Olesen, K. and Cheng, F. (2011), “Convergence of accounting standards does not always lead to convergence of accounting practices”, *Asian Journal of Business and Accounting*, Vol. 4 No. 1, pp. 23-58.

Peng, S. and Bewley, K. (2010), “Adaptability to fair value accounting in an emerging economy: a case study of China’s IFRS convergence”, *Accounting, Auditing and Accountability Journal*, Vol. 23 No. 8, pp. 982-1011.

Power, M. (2010), “Fair value accounting, financial economics and the transformation of reliability”, *Accounting and Business Research*, Vol. 40 No. 3, pp. 197-210.

PwC (2012), *Accounting and Reporting*, available at: <https://www.pwccn.com/en/migration/pdf/iic-ch10.pdf> (accessed 19 September 2018).

Shan, Y. and Troshani, I. (2016), “The effect of mandatory XBRL and IFRS adoption on audit fees: evidence from the Shanghai Stock Exchange”, *International Journal of Managerial Finance*, Vol. 12 No. 2, pp. 109-135.

Sikka, P. (2001), “Regulation of accountancy and the power of capital: some observations”, *Critical Perspectives on Accounting*, Vol. 12 No. 2, pp. 199-221.

Xiao, J. and Hu, G. (2017) *Fair Value Accounting in China: Implementation and Usefulness*, Institute of Chartered Accountants in England and Wales, London.

Yang, H., Clark, C., Wu, C. and Farley, C. (2018), “Insights from accounting practitioners on China’s

 convergence with IFRS”, *Australian Accounting Review*, Vol. 28 No. 1, pp. 14-27.

Zhang, Y., Andrew, J. and Rudkin, K. (2012), “Accounting as an instrument of neoliberalisation? Exploring the adoption of fair value accounting in China”, *Accounting, Auditing and Accountability Journal*, Vol. 25 No. 8, pp. 1266-1289.

**Table I.** The number of ASBEs which require or allow fair value, according to PB and this paper

|  |  |  |  |
| --- | --- | --- | --- |
| ***1.Type of use of fair value*** | ***2.PB’s Table I******(ASBEs of 2006)*** | ***3.This paper******(ASBEs of 2006)*** | ***4.This paper******(ASBEs in mid-2019)*** |
| **Initial measurement at fair value:** |  |  |  |
| Required |  17 |  3a |  3 |
| Required for some items |  - |  8b |  9m |
|  Required if lower |  - |  1c |  - |
|  |  |  |  |
| **SMFV:**  |  |  |  |
|  Required  |  8 |  - |  - |
|  Required for some items |  - |  2d |  4n |
|  Required for some and *allowed* for others Required in special circumstances |  - - |  1e 1f |  1 1 |
|  *Allowed* for some items in special circumstances |  - |  1g |  1 |
|  |  |  |  |
| **Fair value for impairment or similar:** |  |  |  |
| Required Required if lower Required for some items if lower |  11 - - |  - 1h 1i |  - 2o - |
| Required in special circumstances if lower |  - |  2j |  2 |
|  |  |  |  |
| **Other uses related to fair value:** Unspecified |  17 |  - |  - |
|  Recognition or measurement |  - |  4k |  6p |
| Disclosures only |  - |  3l |  3q |
|  |  |  |  |
| **Total number of standards mentioning fair value** (after deleting double-counting) |  25 of 38 |  22 of 38 |  27 of 42 |
|  |  |  |  |

Notes: a= widespread use of fair value in ASBEs 11, 20 and 22; b= ASBEs 2, 7, 12, 14, 16, 23, 37 and 38; c= ASBE 21; d= ASBEs 10 and 11; e= ASBE 22; f= ASBE 5; g= ASBE 3; h= ASBE 1; i= ASBE 4; j= ASBEs 8 and 27; k= ASBEs 4, 21, 24 and 27; l= ASBEs 30, 31 and 37: m= ASBE 9 added; n= ASBEs 9 and 33 added; o= ASBE 42 added (instead of ASBE 4 in the line below); p= ASBE 37 moved from line below, ASBE 39 added; q= ASBE 37 removed, ASBE 41 added.

**Table II.** Differences (concerning fair value) between ASBEs of 2006 and IFRS at that date

|  |  |  |
| --- | --- | --- |
|  | ***IFRS*** | ***ASBEs*** |
| 1. | IAS 16 allows SMFV for property, plant and equipment (para. 29) | ASBE 4 does not allow SMFV |
| 2. | IAS 38 allows SMFV for some intangibles (para.s 72, 78) | ASBE 6 does not allow SMFV |
| 3. | IAS 40 allows SMFV for investment properties (para. 30) | ASBE 3 allows SMFV but constrains the choice (see Section 3.3 above)  |
| 4. | IFRS 6 allows SMFV for exploration and evaluation assets (para.12) | ASBE 27 does not allow SMFV |
| 5. |

|  |  |
| --- | --- |
| IAS 19 requires SMFV for pension fund assets (para. 113) |  |

 | ASBE 9 (of 2006) did not deal with pensions  |
| 6. | IAS 41 presumes that fair value can be measured reliably for biological assets whereupon SMFV is required (para.s 12 and 30)  | ASBE 5 constrains the use of SMFV (see Section 3.3 above) |
| 7. | IAS 41 requires a version of fair value for initial measurement of biological assets (para. 12) | ASBE 5 requires cost (Art. 6) |
| 8. | IAS 36 requires reversals of impairment when appropriate, thereby sometimes involving fair value (para. 110) | ASBE 8 does not allow reversals of impairment (Art. 17) |

**Appendix** Fair value as required/allowed in ASBEs *[changes since 2006 shown in italics in square brackets]*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **1.ASBE number and topic** | **2.FV for initial measurement of cost** | **3.SMFV required**  | **4.SMFV allowed**  | **5.FV (or similar) if it is a lower value** | **6.Other uses or disclosures of fair valuea** |
|  | 1. Inventory | -b |  - | - | NRV if lower than cost (Art. 15) | -e |
|  | 2. Long-term investments *[amended in 2014; no effect on this table]*  | Investments obtained by issuing shares (Art. 4, *now Art. 6*) | - | - | -d | - |
|  | 3. Investment property | - | - | If conclusive evidence that FV is reliably measurable on a continuing basis (Art. 10) | -d | - |
|  | 4. Property, plant and equipment | -c | - | - | For assets to be disposed of, use FV less selling costs if lower than carrying amount (Art. 22 and Interpretation 1, Article 6) *[replaced by ASBE 42]*d | For pro rata allocation of cost when several assets are bought for single price (Art.8)e |
|  | 5. Biological assets | - | For living assets, if conclusive evidence that FV is reliably measurable on a continuing basis (Art. 22)  | - | -d | -e |
|  | 6. Intangible assets | - | - | - | -d | -e |
|  | 7. Exchange of assets | Non-monetary assets exchanged (Art. 3) | - | - | - | - |
|  | 8. Impairment | - | - | - | ‘FV less selling costs’ when higher than discounted net cash flows, but only when both are lower than previous carrying amount (Art.s 6 and 8) | - |
|  | 9. Employee benefits *[amended in 2014]* | *[Non-monetary benefits (Art.6)]* | *[Plan assets (Art. 13)]* | - | - | - |
|  | 10. Annuity funds | - | For financial assets (Art. 6) | - | - |  |
|  | 11. Share-based payment | Instruments granted (Art. 10) | For cash-settled liabilities (Art. 4) | - | - | - |
|  | 12. Debt restructuring | Assets or equity interests received or surrendered (Art. 5) | - | - | - | - |
|  | 13. Contingencies | - | - | - | - | - |
|  | 14. Revenue *[amended in 2017]* | Deferred revenue *[or non-cash consideration]* (Art. 5, *now Art. 18*) | - | - | - | - |
|  | 15. Construction contracts *[replaced by ASBE 14 of 2017]* | - | - | - | - | - |
|  | 16. Government grants *[amended in 2017; no effect on this table]* | Non-cash grants (Art. 6, *now Art. 7*) | - | - | - | - |
|  | 17. Borrowing costs | - | - | - | - | - |
|  | 18. Income taxes | - | - | - | - | - |
|  | 19. Foreign currency | - | - | - | - | - |
|  | 20. Business combinations | Consideration given; assets/liabilities acquired (Art.s 11 and 12) | - | - | - | - |
|  | 21. Leases *[Amended in 2018]* | Leased asset (if lower than DCF of liability) (Art.11) *[No longer relevant; asset measure now based on liability]* | - | - | - | Criteria for identifying a finance lease (Art. 6) [*now Article 36 and only relevant for lessors; method of determining discount rate (Art. 17)]* |
|  | 22. Financial instruments *[amended in 2017; no effect on this table]* | Most instruments (Art.30, *now Art. 33* ) | Certain types of instrument (Art. 32+, *now Art. 16+*) | Designated instruments (Art. 10, *now Art. 20*) | - | - |
|  | 23. Transfer of financial assets *[amended in 2017; no effect on this table]* | Some instruments (Art. 12, *now Art. 24*) | - | - | - | - |
|  | 24. Hedging *[amended in 2017; no effect on this table]* | - | - | - | - | Mentioned throughout for hedging criteria and treatment of gains and losses |
|  | 25. Insurance contracts | - | - | - | - | - |
|  | 26. Reinsurance | - | - | - | - | - |
|  | 27. Extractive industries | - | - | - | For impairment, ASBE 8 generally applies, except for unproved mining rights, for which an impairment test based on fair value is used (Art. 7) | For pro rata calculation of partial disposals (Art. 8) |
|  | 28. Accounting policies | - | - | - | - | - |
|  | 29. Events after balance sheet | - | - | - | - | - |
|  | 30. Presentation *[amended in 2014; no effect on this table]* | - | - | - | - | Disclose gains/losses from changes in fair value (Art. 27, *now Art. 23+*) |
|  | 31. Cash flow statements | - | - | - | - | Disclose note of changes in fair value affecting operating cash flow (Art. 16) |
|  | 32. Interim statements | - | - | - | - | - |
|  | 33. Consolidated statements *[amended in 2014; affects columns 2 and 3]* | *-* | *[Subsidiaries held by investment entities (Art. 21)]* | - | - | *[Measuring gains/losses in step acquisitions (Art. 48)]* |
|  | 34. Earnings per share | - | - | - | - | - |
|  | 35. Segment reporting | - | - | - | - | - |
|  | 36. Related parties | - | - | - | - | - |
|  | 37. Financial instruments presentation *[amended in 2017; affects column 6]* | Liability part of compound instrument (Art. 10, *now Art. 14*) | - | - | - | Many disclosures (Art. 14+, *now Art. 39+*); *[distinguishing liabilities from equity (Art. 10)]* |
|  | 38. First-time adoption of ASBE | Some types of investments (e.g. Art. 6+) | - | - | - | - |
|  | *39. Fair value measurement [issued 2014]* | - | - | - | - | *[Standard defines fair value]* |
|  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| *40. Joint venture arrangements [issued 2014]* | - | - | - | - | - |

 | - | - | - | - | - |
|  | *41. Disclosure of interests in other entities [issued 2014]* | - | - | - | - | *[Some disclosures (Art. 7)]* |
|  | *42. Non-current assets held for sale [issued 2017]* | - | - | - | *[For assets to be disposed of, use FV less selling costs if lower than carrying amount (Art. 13).]* | - |

This table identifies the mentions of “fair value” in each of the accounting standards, dividing the mentions into five categories. SMFV means using fair value measurement on a continuing basis for an asset or a liability. In cases where a standard does not itself mention fair value but sends readers to another standard which does, only that latter standard is scored, in order to avoid double-counting. Unless otherwise stated, the standard was issued in 2006; those amended or newly issued since then are shown in italics in square brackets. Notes: (a) Excluding disclosure requirements related to items in columns to the left of this. (b) ASBE 1 does not mention fair value but its Article 12 refers to ASBEs 5, 7, 12 and 20, which require initial recognition of various items at fair value. (c) ASBE 4 does not mention fair value for initial measurement but its Article 12 refers to ASBEs 7, 20 and 21, which require initial recognition of various items at fair value. (d) ASBE 8 applies for impairment. (e) I have not scored the cases (referred to in Section 3.2) where a standard refers to unfair values but does not explain what should be done in such circumstances.

Sources: The standards can be found at: http://www.casc.org.cn/casc/zhence/quanwen/2.shtml (accessed 21 June 2019). I have also consulted Deloitte (2006), ESMA (2011), Mirza and Ankarath (2012, Appendix E), and PwC (2012). I have benefitted from discussions with Tianran Liu, Songlan Peng, Jason Xiao and Wei-Guo Zhang.

1. Google scholar showed 95 citations on 23 June 2019. [↑](#footnote-ref-1)
2. For the purposes of this paper, we do not need a more precise definition, but readers can find one in paragraph 9 of IFRS 13, *Fair Value Measurement,* which is the basis for the Chinese standard ASBE 39, issued in 2014. [↑](#footnote-ref-2)
3. From here on, I largely refer to assets because, for most entities, fair value is of little relevance for liabilities. [↑](#footnote-ref-3)
4. For example, Deloitte (2006), ICAS (2010), Olesen and Cheng (2011) and Zhang et al. (2012). [↑](#footnote-ref-4)
5. Evans (2018) warns us against expecting there to be “equivalent” translations, but at least it is clear that the titles of the Chinese documents (企业会计准则) do not contain characters for “Chinese” or “national”. [↑](#footnote-ref-5)
6. BGP refer to “ASBE” without explanation of the acronym in their footnote 2. Given the context (the year 2008), this must mean “Accounting Standards for Business Enterprises” but, since their paper does not mention that term, readers might be misled into thinking it meant the earlier “Accounting System for Business Enterprises”. [↑](#footnote-ref-6)
7. This appears to be a typographical error, as BGP’s Table I also reports that the same system was introduced in 2001. For details on this 2001 system, see: <https://www.pwccn.com/en/migration/pdf/iic-ch10.pdf> (accessed on 4 May 2019). [↑](#footnote-ref-7)
8. As examples, it was required in the USA by Accounting Principles Board Opinion 16 of 1970, and it has been the required basis in the laws of member states of the European Union since implementation of the Seventh Directive on company law of 1983 (Article 19). [↑](#footnote-ref-8)
9. In correspondence with me (of 10 October 2018), Songlan Peng explains that this is why PB scored such standards as ASBEs 1, 4, 5 and 6 as using fair value for initial recognition even though the standards clearly require cost (Articles 5, 7, 6 and 12, respectively). [↑](#footnote-ref-9)
10. ASBE 1 (Article 11), ASBE 4 (Article 11), ASBE 5 (Article 12) and ASBE 6 (Article 14). [↑](#footnote-ref-10)
11. Cash-settled share-based payment liabilities are continuously measured at the fair value of the share appreciation rights. [↑](#footnote-ref-11)
12. The quotation in Section 1 refers to eight standards, and one can tell which they are by looking at the “Subsequent measure” column of PB’s Table I. [↑](#footnote-ref-12)
13. Article 8 of ASBE 27 mentions fair value (as a way of estimating proportions of book value) in the context of transferring part of an interest in a mine, but this is not SMFV. This use is mentioned in 3.6 and is recorded in column 6 of the Appendix. [↑](#footnote-ref-13)
14. Correspondence of 10 October 2018. [↑](#footnote-ref-14)
15. When it is impossible to determine fair value even using discounted cash flows (paragraph 53). [↑](#footnote-ref-15)
16. Beijing North Star, 2017 Annual Report, p. 168. [↑](#footnote-ref-16)
17. 42.6% of financials and 2.6% of non-financial companies. [↑](#footnote-ref-17)
18. ASBEs 5, 10, 11 and 22. [↑](#footnote-ref-18)
19. ASBE 3. This does not count ASBE 22, which does *allow* SMFV for some assets, but is already included in the ‘required’ list for other assets. [↑](#footnote-ref-19)
20. PB, and Xiao and Hu (2017). [↑](#footnote-ref-20)
21. For example, this would include reference to fair values to allocate cost for the initial measurement of items of assets in the special case recorded for ASBE 4 in column 6 of the Appendix. [↑](#footnote-ref-21)
22. Net realisable value is approximately fair value less costs of completion and sale. [↑](#footnote-ref-22)
23. For example, ASBEs 3, 5 and 6. [↑](#footnote-ref-23)
24. For example, ASBE 4, Article 20. [↑](#footnote-ref-24)
25. ASBE 18 (Article 20) deals with impairment of deferred tax assets, but there is no mention of fair value. Also, ASBE 21 on leases appears not to discuss impairment (i.e. it does not have the equivalent referral to ASBE 8 as in the other asset standards). [↑](#footnote-ref-25)
26. ASBEs 11 and 22. [↑](#footnote-ref-26)
27. PB (Table III, item 2) state that the IFRS “general rule” for measurement at initial recognition is fair value. However, this is not the case: there is no general rule. Furthermore, cost is specifically required by IAS 16 (para. 15), IAS 38 (para. 24) and IAS 40 (para. 20); and cost or lower is required by IAS 2 (para. 9). Secondly, PB (Table III, item 3; and p. 994) state that IFRS (unlike ASBE 3) requires initial measurement of investment property at fair value, but this is incorrect because IAS 40 (para. 20) requires cost. Thirdly, PB (Table III, item 4) state that business combinations under common control are accounted for as poolings under ASBEs but as purchases under IFRS. However, IFRS 3 (para. 2) specifically exempts combinations under common control so that pooling can be used. PB’s text on this (p. 993) contradicts their table. [↑](#footnote-ref-27)
28. If the antiques are inventory, IAS 2 does not allow SMFV. If the antiques fall into IAS 16 (which is unclear), paragraph 31 *allows* SMFV, but only when there is a reliable measure, which might not apply to antiques. If the antiques are investments, it is unclear whether they fall directly into any standard. [↑](#footnote-ref-28)
29. The change in column 2, relating to ASBE 14, might just be a wording change, or it substitutes one unusual case for another. [↑](#footnote-ref-29)
30. The 2006 version of ASBE 9 did not deal with defined benefit pensions for this reason, but the revision of 2014 covers the issue, partly because non-PRC subsidiaries may have defined benefit obligations. [↑](#footnote-ref-30)
31. PB mention the standards of 1998 very briefly on page 987 and in footnote 1. [↑](#footnote-ref-31)
32. Some uses of fair value were introduced into IFRS after 1998. Even so, BGP’s Table I includes SMFV for financial instruments (as required by IAS 39 of 1999), but, for example, the SMFV required or allowed by IAS 40 or IAS 41 came later. [↑](#footnote-ref-32)