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The use of fair value in the Chinese Accounting System

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"Chi troppo studia matto diventa"
Nonno Damino, 1970 ca.
"Speriamo di essermi salvata in tempo"
Io, annus horribilis 2020

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List of abbreviations

ASBE Accounting Standard for Business Enterprises

CASC Chinese Accounting Standard Committee

CAS Chinese Accounting Standards

CBRC China Banking Regulatory Commission

CCP Communist Party of China

CFO Chief Financial Officer

CICPA Chinese Institute of Certifies Public Accountants

CPA Chinese Professional Accounting

CSRC China Securities Regulatory Commission

FASB Financial Accounting Standards Board

FVA Fair Value Accounting

GAAP Generally Accepted Accounting Principle

GDP Gross Domestic Product

FASB Financial Accounting Standards Board

IASB International Accounting Standard Board

IAS International Accounting Standards

IFAC International Federation of Accountants

IFRS International Financial Reporting Standard

MOF Ministry of Finance

PRC People's Republic of China

SOE State-Owned Enterprise

US United States

WTO World Trade Organization

Abstract

This study is focused on the use of fair value in the Chinese Accounting System. It can be affirmed without any doubt that the introduction of fair value marks a crucial moment in the history of the Chinese Accounting System and its use has brought significant and radical changes in the way assets and liabilities are measured.

As a matter of fact, fair value accounting, unlike historical cost accounting, uses current market values to estimate the value of the assets and liabilities considered. Fair value can therefore be defined as the price at which an asset can be sold or a liability can be settled in an orderly transaction to a third party under current market conditions.

The objective of this study is to depict a faithful portrait of the use of fair value in the Chinese Accounting System by presenting the regulation that has been emanated by Chinese authorities concerning fair value, the literature and the studies produced by scholars and accounting experts on the matter and the findings of this study in analyzing annual reports published by companies in the years when a change of regulation occurred.

The complicated history behind the adoption of fair value in China has been described in the first chapter of this study. After the first fair value reform, which occurred between 1997 and 2000, the use of fair value in China was forbidden since 2001 as some companies had used fair value measurement in order to manipulate profits and to present false information to stakeholders.

In 2006, with the issuance of new accounting standards by the Chinese Ministry of Finance, the use of fair value was reintroduced as the many of these standards required or permitted it.

Finally, in 2014, a new standard only concerning the use of fair value has been provided, namely CAS 39.

According to scholars, there are many reasons for the reintroduction of fair value, which are exposed in the second chapter of this study. Nevertheless, its technical strength, the growing globalization of accounting standards and the development of the Chinese market and the Chinese economy are believed to be the crucial ones.

Unfortunately, there are also some limits that prevent companies from applying fair value measurement correctly. It has been argued that the main troubles related to the use of fair value may be avoided allowing accountants to receive a better education on how to use fair value and strengthening the control of authorities over companies in order to prevent the use of fair value to produce false information. Some scholars also claimed that, to overcome major limits concerning the use of fair value and its lack of disclosure, the completeness of the regulation and the presence of theoretical studies could play a fundamental role.

Therefore, to verify if the issuance of new and more complete regulation has really favored the correct disclosure of fair value, in the third chapter the annual reports of a sample of companies for the years 2007 and 2014 have been analyzed according to the requirements of CAS 39. This analysis is a fundamental part of the study as it compares the annual reports of year 2007 with those of year 2014 and can underline the differences between them.

前言

自从首次应用公允价值以来，它便一直是全世界争论不休的话题。因为公允价值的使用已经带来了对资产和负债的计量方式重大而根本的改变。

实际上，与历史成本会计不同，公允价值会计使用当前市场价值来估计所考虑资产和负债的价值。因此，公允价值可以定义为在当前市场条件下，在向第三方进行有序交易中可以出售资产或清偿负债的价格 (IFRS 13, 2011) (CAS 39, 2014) 。

本研究的目的是通过介绍中国当局针对公允价值提出的法规来真实描述中国会计制度中公允价值的使用情况，及学者和会计专家针对公允价值书写的文献和研究，以及通过分析在发生法规变更的年份公司发布的年度报告而所得出的结论。

采用公允价值的历史非常复杂。必须说，对公允价值及其体系的第一批理论研究是在西方进行的，后来又被东方采用。

事实上，尽管有关公允价值的会计准则似乎是最近才发展起来的，但“公允价值”的概念在金融理论和哲学思辨中并不新口。

如今我们认为“公允价值” 中“公允”概念的起源其实可以追溯到亚当·斯密的思想。（Donleavy，2019）实际上，在讨论“公允价值”时，我们必须考虑史密斯认为是“公允”的东西。在他看来，公平并不是社会正义的代名词。事实上，根据英国学者的说法，后者既具有可交换性又具有分配性，并且与任何均等主义概念无关。

因此，当我们在会计中提及“公允价值”时，我们必须提及史密斯所描述的分配正义的概念，即“对私人资源的使用”。必须将上述“使用”视为完全自愿性质，不受任何外力的影响。（Donleavy，2019）

即使公允价值计量的理论基础似乎植根于史密斯的哲学，也花了很多年才将这些推测付诸实践。

许多会计师和学者对他的建议深信不疑，因为公允价值的使用被认为特别适合于新的金融工具和市场的新特征。

实际上，当资产或负债在活跃市场中进行定价时，公允价值计量是有效的，因为交易数量众多，很容易确定所考虑的资产或负债的成本。此外，如前所述，有些金融工具（例

如衍生工具）由于其固有特性，无法使用历史成本计量进行定价，而需要使用公允价值进行定价。

Mumford（2000）认为，在 19 世纪和 20 世纪使用历史成本受到两个主要因素的影响，“首先是资产的可分割性，以便可以轻易出售以偿还债务，其次是资产成本。认为，由于第二次世界大战期间大部分时间里价格下跌，历史成本规则比市场价格更为保守。”

根据 Power（2010）的研究，西方公允价值计量直到最近才小有所成是受到了四个决定性因素的影响，。第一个是提供会计衍生工具的关键需求，因此要求将公允价值会计的使用范围扩展到所有金融工具。第二个是资产负债表从法律机构到经济机构的转变。此事件引起了对具有经济意义的资产和负债数字的需求的增加。这些只能在会计中应用公允价值计量获得。第三点是公允价值的重要性 “对于标准制定者的专业，规范身份的促成” (Power, 2010)。第四个是使用公允价值计量的支持者使用金融经济学的方法来证明公允价值计量的可靠性。

目前，对于西方世界的公允价值仍然存在很多疑问，对它的使用因会增加价格的波动性，且存在明显的顺周期性而被认为是导致 2007 年金融危机的原因之一。

可以看出，在西方国家，公允价值的使用经历了不同的阶段，而且对公允价值的使用从未获得共识。

然而，如前所述，本研究着重于中国会计制度中公允价值的使用。可以说，在中国，过去和现在都存在着西方对公允价值运用的怀疑态度。在中国应用公允价值的重要关键是要攻克一个难点：公允价值计量是西方银行专门为西方市场设计的。是否也适合中国和中国市场？

本研究的第一章介绍了在中国采用公允价值背后的复杂历史。

由于邓小平实行 “开放” 政策并促进了社会主义市场经济的诞生，迫切需要制定能够促进会计准则使用的稳健法规。中国会计准则的发展是长期而艰巨的，目前，公允价值的应用还有很长的路要走（Xu，Cortese and Zhang，2018）。

正如西方国家以前所做的那样，仅在 1997 年，中国终于开始面对使用公允价值会计的挑战（Bewley，Graham and Peng，2018）。

具体而言，在 1997 年至 2000 年发布的法规中，首次发布的十项标准中的三项要求公允价值（Bewley，Graham and Peng，2018）。

看来中国政府选择允许使用公允价值的原因，不仅是因为公允价值的技术优势，还因为这足以为新型资产和负债定价。确实，中国想加入世界贸易组织，其会计标准与国际会计标准的融合可能有助于这一进程。要想加入世界贸易组织，中国必须证明自己是一个具有巩固和发展的市场经济的国家，并且拥有清晰先进的会计准则和现代评估方法来确定资产和负债的价格 (Liu, 2010）。

如前所述，西方国家普遍使用公允价值，因此中国采用公允价值将使中国的标准与国际标准保持一致，并使两种不同的会计惯例更加相似。

无论如何，最初几年公允价值在中国的应用并不成功。实际上，从 1998 年到 2000 年，发生了许多有关使用公允价值的丑闻。这是因为公司将使用公允价值计量来操纵利润并将虚假信息提供给利益相关者。最著名的操纵案例是琼民源和郑百文这两个著名商人，他们使用公允价值会计非法增加收入 （Liu，2010）。

这些非法行为特别容易执行，因为公司会对公允价值的性质，中国市场的独特特征以及缺乏可以阻止和惩罚这种行为的法规来加以利用。实际上，根据学者的说法，由于要素市场不成熟，市场不活跃和监管不完善，公允价值被成功地用于操纵非法活动的数据（Liu，2010）(Xiao, Qu and Xiao.,2009) (Xiao and Hu，2017）。

这就是为什么，随着 2001 年 CAS 的推出，中国政府调整了规定会计准则中的公允价值部分，要求公司仅在经济事务中使用账面价值 (Liu，2010）。

2006 年，随着中国财政部发布了 CAS 基本标准和 38 项特定的 CAS 新标准，重新引入了公允价值，因为其中大多数标准（38 项中的 25 项）被要求或允许使用初始计量，后续计量，减值测试以及资产和负债的公允价值 （Xiao and Xu，2017）。

根据学者的说法，有很多重新引入公允价值的原因，这在本研究的第二章中有介绍。

赞成采用公允价值的主要原因是其技术实力。事实上，不可否认的是，公允价值在技术上优于其他估值方法，有时甚至是唯一能够可靠地对某些现代资产和负债（例如衍生工具）定价的方法 （Zhang and Andrew，2016）。

这些新的现代金融项目只能以公允价值进行定价，这是由于最近几十年来中国市场不可否认的发展。实际上，后者正在不断发展，因此需要对诸如公允价值之类的新型资产和负债采用适当的估值方法 （Zhang and Andrew，2016）。

重新引入公允价值的另一个关键原因是需要遵循全球会计准则的协调程序。使中国的会计标准与国际会计标准保持一致可能会给中国经济带来很多积极的影响，因为这可能有助于加强贸易并吸引外国投资者 （Jiang and Zhang，2007）（Zhang and Andrew，2016）。

不幸的是，还有一些限制使公司无法正确应用公允价值计量。例如，有人争辩说，如果会计师能够接受更好的教育，因为其中许多人似乎对如何应用公允价值计量缺乏准备，也不了解，那么就可以避免与使用公允价值有关的主要麻烦 (Yang, Clark, Wu and Farley, 2018）。

与使用公允价值有关的另一个问题是，将其用于操纵利润和向利益相关者提供虚假信息的非法目的。在某些情况下，公允价值收益也用于增加管理人员的报酬 (Shao, Chen and Mao, 2012) 。 为了避免对公司的非法操纵，学者们建议中国政府进行干预，以加强对公司当局的控制。这应防止使用公允价值产生虚假信息 （Liu，2009）（Chen and Lu，2009 年）（Zhi and Tong，2010 年）。

一些学者还注意到，由于公允价值的使用与更高的技术专长，审计风险和审计工作量相关联，因此公允价值的使用意味着更高的审计成本（Tang and Liu，2017）。

一些学者声称，为了克服有关使用公允价值的主要局限，法规的完整性和理论研究的存在可能起根本作用 （Liu，2010）。

这就是为什么许多学者建议需要一个独特而清晰的标准，以解释如何使用公允价值以及在年度报告中披露有关公允价值的内容。实际上，有关公允价值的法规在 38 项标准中均分散存在，并没有提供有关如何应用估值方法以公允价值对资产或负债进行定价的信息。学者们认为，零散而不清楚的法规可能会使会计师感到困惑，因此可能难以应用公允价值（Liu，2010）。

最后，2014 年 1 月 26 日，中国财政部发布了仅关于公允价值使用的新准则，即 CAS 39。

自 2014 年 7 月 1 日起，新标准必须在中国所有公司中应用。 CAS 39 包含有关应在何种情况下使用公允价值，何时何地使用公允价值以及如何在年度报告中披露其使用的规定（CAS 39, 2014）。

CAS 39 的结构和规定与 IFRS 13 中的规定非常相似。这表明，该准则的发布也可能是使中国会计准则与国际会计准则保持一致的又一步 （Zhou，2018）。

许多学者将 CAS 39 的发行看作是对那些努力应用公允价值的公司的根本帮助。该标准最终提供了明确的准则，可以遵循这些准则正确使用公允价值 （Zhang L.，2018）。

阅读关于中国公司年度报告的一些经验研究和机构评论，很容易注意到，有些投诉是在发布 CAS 39 之前的，涉及中国企业如何在年度报告中使用和披露公允价值，例如中国证券监督管理委员会对 2008 年和 2013 年年度报告做出的负面评价。

有趣的是，在 CAS 39 发布后投诉便消失了，并且很多作者提到该标准对改进年度报告中的披露和使用公允价值绝对有利 （Zhang L，2018）。

因此，为验证颁布新的和更完整的法规是否确实有利于公允价值的正确使用和披露，在第三章中，根据 CAS 39 的规定对 2007 年和 2014 年公司的年度报告进行了分析。 报告来自中国证监会 2007 年和 2014 年年度报告中披露的公司。

实际上，该分析是该研究的根基，因为它比较了 2007 年和 2014 年的年度报告，并可以突显它们之间的差异。从获得的结果来看，可以验证在发布 CAS 39 之后披露水平是否真的有所提高。

现在是时候进行有关中国会计制度中公允价值使用的研究了。

Introduction

Since its first application, the use of fair value has been a widely debated topic worldwide, as its use has brought significant and radical changes in the way assets and liabilities are measured.

As a matter of fact, fair value accounting, unlike historical cost accounting, uses current market values to estimate the value of the assets and liabilities considered. Fair value can therefore be defined as the price at which an asset can be sold or a liability can be settled in an orderly transaction to a third party under current market conditions (IFRS 13, 2011) (CAS 39, 2014).

The objective of this study is to depict a faithful portrait of the use of fair value in the Chinese Accounting System by presenting the regulation that has been emanated by Chinese authorities concerning fair value, the literature and the studies produced by scholars and accounting experts on the matter and the findings of this study in analyzing annual reports published by companies in the years when a change of regulation occurred.

The history behind the adoption of fair value is extremely complicated. It is essential to say that the first theoretical studies concerning fair value and its design were carried out in the West and subsequently adopted in the Far East.

As a matter of fact, although the accounting standards that concern fair value appear to have been developed recently, the concept of "fair value" is not certainly new in financial, theoretical and philosophical speculation.

The origins of the concept of "fair" in what we consider "fair value" nowadays, as a matter of fact, can be traced to Adam Smith's ideas (Donleavy, 2019). In fact, when discussing about "fair value", we must consider what Smith believed to be "fair". To him, fairness was not a synonym of social justice. As a matter of fact, the latter had, according to the British scholar, both commutative and distributive aspects and did not concern by any means any egalitarian notion (Donleavy, 2019).

When we refer to "fair value" in accounting we must therefore refer to the concept of distributive justice depicted by Smith, "a becoming use" of private resources. The aforementioned "use" has to be considered of a fully voluntary nature, not influenced by any external force (Donleavy, 2019).

Even if the theoretical base of the fair value measurement appears to have its roots in Smith's philosophy, it took many years and many studies to shift these speculations into practice.

In fact, fair value measurement is efficient when the pricing of an asset or a liability is done in active market, where the high number of transactions makes it easy to determine the cost of the asset or of the liability considered. Moreover, there are some financial instruments, such as derivatives, that, for their intrinsic characteristics, cannot be priced using historical cost measurement, but need to be priced using fair value.

Mumford (2000) believes that the use of historical cost during the nineteenth and twentieth centuries was influenced by two main factors, "first to the need for assets to be severable in order that they could be easily sold to meet debts, and second to the view that historical cost rules were more conservative than market to market as prices were falling for most of the period to the Second World War" (Mumford 2000).

According to Power (2010), the triumph of fair value measurement in the West was so recent because of the influence of four decisive factors. The first one was the crucial need to provide instruments in order to account for derivatives, and this consequently resulted into a demand to extend the use of fair value accounting to all financial instruments. The second one was the incoming change of the balance sheet from a legal to an economic institution. This event brought to the rise of the demand for economically meaningful assets and liability numbers. These could only be obtained applying fair value measurement in accounting. The third one was the importance of fair value "to the development of a professional, regulatory identity for standard-setters" (Power,2010). The fourth one was that the supporters of the use of fair value measurement used methods of financial economics to show the reliability of the fair value measurement (Power,2010).

Right now, there are still many doubts about fair value in the Western World, as it is considered to be one of the causes of the financial crisis of 2007 due to the fact that its use can increase the volatility of prices.

As it can be noticed, in the West the use of fair value has undergone various stages, and the approval towards its use has never been unanimous.

Nevertheless, as stated previously, this study focuses on the use of fair value in the Chinese Accounting System. It can be said that, in China, there was and there is at present the same skepticism that could be found in the West towards the application of fair value. What is significant about the application of fair value in China is that there is a major difficulty to overcome: fair value measurement was specifically designed by Westerners on the basis and for the Western market. Could it be also suitable for China and the Chinese market?

The complicated history behind the adoption of fair value in China has been described in the first chapter of this study.

Since Deng Xiaoping carried out the “reform and opening up” policy and promoted the birth of the socialist market economy, there was the impellent need for a solid regulation that could promote the use of accounting standards. The development of accounting standards in China was long and arduous, and for the moment the application of fair value was still far (Xu, Cortese and Zhang, 2018).

It was just in 1997 that China started to finally confront itself with the use of fair value accounting, as Western countries had done before (Bewley, Graham and Peng,2018).

Specifically, in the regulation issued from 1997 to 2000, fair value is required in three of the ten new standards issued (Bewley, Graham and Peng,2018).

It seems that the reason why the Chinese Government chose to allow the use of fair value was not only the technical superiority of fair value and the fact that it is adequate to price new kinds of assets and liabilities. Moreover, China wanted to enter the World Trade Organization, and the convergence of its accounting standards with international accounting standards could have favored this process. As a matter of fact, in order to enter the World Trade Organization, China had to prove to be a Country with a consolidated and developed market economy, with clear and advanced accounting standards and modern evaluation methods to determine the price of assets and liabilities (Liu, 2010).

As mentioned before, the use of fair value was common for Western Countries, and therefore its adoption by China would harmonize Chinese standards with international ones and make the two different accounting regulations more similar.

Anyway, the use of fair value in China in those first years was not successful. As a matter of fact, from 1998 to 2000, many scandals concerning the use of fair value occurred. This was due to the fact that companies would use fair value measurement to manipulate profits and to present false information to stakeholders. The most famous cases of manipulation were the ones of Qiong Minyuan and Zheng Baiwen, two famous businessmen that used fair value accounting to boost their earnings illegally (Liu, 2010).

These illegal actions were particularly easy to carry out as companies would take advantage of the nature of fair value, of the unique characteristics of the Chinese market and of the lack of regulation that could prevent and punish this behavior. As a matter of fact, according to scholars, fair value was so successfully used to manipulate data due to the Chinese immature and inactive market and the incomplete regulation concerning the use of fair value (Liu, 2010) (Xiao, Qu and Xiao,2009) (Xiao and Hu,2017).

This is why, with the introduction of the new standards for year 2001, the Chinese Government abolished the use of fair value, asking companies to only use book value in economic affairs (Liu, 2010).

In 2006, with the issuance of 38 new standards by the Chinese Ministry of Finance (MOF), the use of fair value was reintroduced as the majority of those standards (25 over 38) required or allowed the use of fair value for initial measurement, subsequent measurement, impairment test and disclosure of assets and liabilities (Xiao and Hu,2017).

According to scholars, there are many factors that favored the reintroduction of fair value, which are exposed in the second chapter of this study. The main reason in favor of the adoption of fair value is its technical strength. As a matter of fact, it is undeniable that fair value is technically superior to other valuation methods and, sometimes, it is even the only method that could reliably price certain modern assets and liabilities, such as derivatives (Zhang and Andrew,2016).

The existence of these new modern financial items that could only be priced using fair value is due to the undeniable development of the Chinese market in these last decades. As a matter of fact, the latter is constantly developing and therefore needs adequate valuation methods for new kinds of assets and liabilities, such as fair value (Zhang and Andrew, 2016).

Another crucial reason for the reintroduction of fair value is the need to follow the harmonization process of accounting standards worldwide. Harmonizing Chinese accounting standards with international ones might bring lots of positive consequences to the Chinese economy, as it could help intensify trade and attract foreign investors (Jiang and Zhang, 2007) (Zhang and Andrew, 2016).

Unfortunately, there are also some limits that prevent companies from applying fair value measurement correctly. For instance, it has been argued that main troubles related to the use of fair value may be avoided allowing accountants to receive a better education, as many of them appear to be unprepared and ignorant on how to apply fair value measurement (Yang, Clark , Wu and Farley2018).

Another problem linked to the use of fair value is the fact that it has been used for the illegal purpose of manipulate profits and providing false information to stakeholders. In some cases, gains at fair value were also used to increase the remuneration of managers (Shao, Chen and Mao, 2012). In order to avoid the illegal manipulation of companies, scholars advise the Chinese Government to intervene strengthening the control of authorities over companies. This should prevent the use of fair value to produce false information (Liu, 2009) (Chen and Lu, 2009) (Zhi and Tong, 2010).

Some scholars also noticed that the use of fair value is linked to higher audit costs, due to the fact that the use of fair value is linked to a higher technical expertise, audit risk and audit workload (Tang and Liu, 2017).

Some scholars claimed that, in order to overcome major limits concerning the use of fair value, the completeness of the regulation and the presence of theoretical studies could play a fundamental role (Liu,2010).

This is why many scholars suggested that there was need for a unique and clear standard that could explain how to use fair value and what to disclose about it in annual reports. As a matter of fact, the regulation concerning fair value was fragmented in each of the 38 standards and did not provide any information on how to apply valuation methods to price an asset or a liability at fair value. A fragmented and unclear regulation, according to scholars, could appear confusing to accountants, that may therefore have difficulties with the application of fair value (Liu,2010).

Finally, on 26th January 2014, a new standard only concerning the use of fair value has been issued by the MOF, namely CAS 39.The new standard had to be applied since 1st July 2014 from all the companies of China that follow the Chinese GAAP. CAS 39 contains information about the circumstances in which fair value should be used, when and for which items to use it and how to disclose its use in annual reports (CAS 39,2014).

The structure and the requirements of CAS 39 are very similar to those that can be found in IFRS 13. This suggest that the issuance of such standard may also be a further step towards harmonization of Chinese accounting standards with international ones (Zhou,2018).

Many scholars see the issuance of CAS 39 as a fundamental help to companies struggling with the application of fair value. This standard finally provides clear guidelines that can be followed to use and disclose fair value correctly (Zhang L.,2018).

Reading some empirical studies and comments of Chinese institutions on annual reports of Chinese companies, it was easy to notice that there were complaints that dated before the issuance of CAS 39 and that were about how fair value was used and disclosed in annual reports by Chinese enterprises, such as the negative comments of the China Securities Regulatory Commission for annual reports for year 2008 and year 2013.

It was interesting to see how the complaints stopped after the issuance of CAS 39 and how many authors mention this standard as absolutely beneficial for the improvement of disclosure and use of fair value in annual reports (Zhang L.,2018).

Therefore, to verify if the issuance of new and more complete regulation has really favored the correct use and disclosure of fair value, in the third chapter the annual reports of a sample of companies for the years 2007 and 2014 have been analyzed according to the provisions of CAS 39. The sample of companies was chosen from the companies that were listed in the annual reports of the China Securities Regulatory Commission for year 2007 and year 2014.

As a matter of fact, this analysis is a fundamental part of the study as it compares the annual reports of year 2007 with those of year 2014 and can underline the differences between them. From the results obtained, it can be verified if the level of disclosure has really improved after the issuance of CAS 39.

It is then of fundamental importance to explain the structure of this study, which enables to display all the pieces of information that are relevant to create a portrait of the use of fair value in the Chinese Accounting System. The first chapter deals with the use of fair value in four distinct periods of time. As a matter of fact, the first section of the first chapter describes how the first fair value reform occurred from 1997 to 2000, as three standards out of the ten issued in the set of rules considered allowed the use of fair value. Then, in the second section of the first chapter, it is described how the use of fair value has been forbidden from 2001 to 2005 due to the illegal use that companies were making of this measurement method. The third section of the first chapter concerns the reintroduction of fair value in 2006 due to the new set of accounting standards issued by the MOF, as 25 out of 38 of the standards issued were requiring or allowing the use of fair value. Then, the last section of chapter number one deals with the issuance of CAS 39, the ultimate standard of the Chinese GAAP that contains the complete regulation concerning fair value measurement issued in 2014. The first section of the second chapter deals with the benefits resulting from the use of fair value in China, while the second presents the limits to the application of fair value in the PRC. The third section shows what arrangements scholars and accountants believe to be necessary to enable companies to use fair value properly in the Chinese reality. As a matter of fact, as shown by the empirical studies on the disclosure of fair value in the fourth section of the second chapter, it seems that the disclosure of fair value was extremely insufficient, at least before the issuance of CAS 39. The third chapter is then dedicated to the study that I conducted on the disclosure of fair value by Chinese companies before and after the issuance of CAS 39. The first section of the third chapter deals with the research purpose, the research question, the research hypothesis, the sample used and the methodology of this empirical study. The second section presents the results for year 2007 in a table with related comments, while the third section presents the results for year 2014 in a table with related comments. The fourth section makes a comparison between the results for year 2007 and year 2014 and the comments concerning total results. As now the structure of the study has been displayed, it is time to proceed with the discovery on the use of fair value in the Chinese Accounting System.

Chapter 1: The regulation concerning the use of fair value in the Chinese Accounting System

1.1 From 1997 to 2000: the first fair value reform

In 1997, China started to finally confront itself with the use of fair value accounting (Xu, Cortese and Zhang, 2018).

The benefits derived from the use of fair value were already known in the academic environment, but were never discussed and promoted as a common practice by the Chinese Government.

On the contrary, the use of fair value was mainly employed by Western Countries with a typical capital market. As a matter of fact, fair value can therefore be defined as the price at which an asset can be sold or a liability can be settled in an orderly transaction to a third party under current market conditions (IFRS 13, 2011) (CAS 39, 2014). In fact, fair value measurement is efficient when the pricing of an asset or of a liability is done in active market, where the high number of transactions makes it easy to gather information that is necessary to determine the cost of the asset or of the liability considered (Zeff, 2005).

Moreover, the development of the capital market has determined the birth of a wider information system and of some highly technological financial instruments, such as derivatives, that, for their intrinsic characteristics, cannot be priced using historical cost measurement, but need to be priced using fair value (Zeff, 2005).

The Financial Accounting Standards Board (FASB) was the first standard setter in the World to require the use of fair value since 1975, when it issued the Statement of Financial Accounting Standards (SFAS) No. 12, named "Accounting for Certain Marketable Securities" (Peng and Bewley,2010).The first standard issued by the IASB that required the use of fair value under certain circumstances was "IAS 11-Construction Contracts", which was issued in 1979 (Demaria and Dufour,2008). Therefore, since 1975, a large number of empirical research has been published to prove that measuring an asset or a liability using fair value is feasible and that fair value itself is superior to historical cost. The empirical research done afterwards on the capital markets in the 1990s has proven that fair value accounting is more relevant than the historical cost one as it provides information that are more relevant for investors in the active market (Peng and Bewley,2010).

Fair value started to be applied so late in China, compared to its first use in US GAAP, because, as mentioned before, fair value is adequate for markets that host a high number of transactions. As a matter of fact, the latter allow a great flow of information that help companies in the pricing of assets and liabilities at fair value (Qu and Zhang,2015). The Chinese market, in the first years of 1990, was still underdeveloped, probably due to the fact that the issuance of the economic reforms wanted by Deng Xiaoping since 1978 was still recent and that the Chinese market had (and still has) unique characteristics that make it different from any other market in the World (Lu, Ji and Aike, 2009).

As a matter of fact, even if the Chinese socialist market economy has many characteristics that are similar to those of the market economy, the peculiarity of the predominance of state-owned-enterprises and of public ownership made it more complicated to apply fair value. As a matter of fact, many scholars and accountants believe that, nowadays, the use of fair value is still not adequate for the Chinese market as the number of transactions between the party concerned and a third party is still limited, probably also due to the fact that the Chinese Government is still the main actor in the market (Yang, Clark, Wu and Farley, 2018).

Since the first economic reforms wanted by Deng Xiaoping in 1978 to open the Chinese market to foreign investors, Chinese companies have used historical cost to measure assets and liabilities. Anyway, from the late 1980s, the Chinese accounting standards started to be modified to be consistent with the new demands of the market and with International Standards. In 1985 the "Accounting Regulations for Sino-Foreign Joint Ventures," was issued. The objective of this standards was to adapt Chinese accounting practices to the requirements of foreign companies. These standards introduced the disclosure of net realizable value and potential inventory loss, but were, for the rest, still requiring the employment of historical cost accounting (Peng, Graham and Bewley,2018).

The academic discussion concerning the introduction of fair value in the Chinese Accounting System was then predominant in the first years of 1990, but when there was the chance to introduce fair value in 1992 with the issuance of the first set of Accounting

Standards for Business Enterprises, fair value was not adopted. This was due to the peculiar characteristics of the Chinese market, which was not considered to be ready for the introduction of fair value by the Ministry of Finance (Qu and Zhang,2015). Even if the regulation did not allow the use of fair value for Chinese listed companies, the Ministry of Finance issued two other accounting standards for year 1992, namely "Accounting Regulation for Foreign Investment Enterprises" and "Accounting System for the Experimental Joint Stock Limited Enterprises". The first one permitted the accrual of inventory impairment, but only if Ministries were favorable. Moreover, it allowed the accrual of bad debt at a government-prescribed rate. The second standard only allowed the accrual of bad debt at a government-prescribed rate (Bewley, Graham and Peng, 2018).

Finally, from 1997, the Ministry of Finance broke the silence about the use of fair value and started favoring its application (Liu,2010).

Specifically, in the period of time from 1997 to 2000, the Ministry of Finance issued ten new accounting standards, whose main objective was the convergence of the Chinese Accounting Standards with International Accounting Standards (Bewley, Graham and Peng, 2018).

The standards that were issued are: "Related Parties and Disclosure of Related Parties Transactions"(1997), "Events occurring after the Balance Sheet Date"(1998), "Revenue"(1998), "Investments"(1998) "Construction Contracts"(1998), "Changes in Accounting Estimates, and corrections of Accounting Errors"(1998), "Cash and Flow Statement"(1998),"Debt Restructuring" (1998), "Non-Monetary Transactions"(1999) and "Contingencies"(2000). The first six standards apply to listed companies and the last four to all companies (Huang and Ma,2001).

There are three standards in this framework that require the use of fair value measurement with certain limitations, namely: the "Investments" standard (1998), the "Non-Monetary Transactions" standard (1999) and the "Debt Restructuring" standard (1998)(Bewley, Graham and Peng, 2018).

In the standards named "Investments" and "Debt Restructuring", both issued in 1998, fair value is introduced for the first time. The "Investments" standard issued by the Chinese MOF in 1998 imposes on all companies to record gains resulting from the sale of a non-monetary asset using the fair value measurement of the asset according to the fair value measurement of the asset sold (Bewley, Graham and Peng, 2018).

The standard named “Debt Restructuring” issued in 1998 states that assets and liabilities that have been received by debtors or creditors in a situation where debt restructuring occurs should be measured using fair value. Gains or losses that derive form the debt restructuring maneuver must be included as net income in the current period. Gains or losses that derive form the exchange of dissimilar assets must also be included as net income in the current period (Bewley, Graham and Peng, 2018).

Fair value is also allowed in the standard “Non-Monetary Transactions”(1999) which states that “the creditor should allocate the book value of receivable creditor’s rights based on the proportion of different non-monetary assets in the total fair value of non-monetary assets and the value after allocation should be the entry one if several debt liquidations by non-monetary assets are involved” (Liu,2010). Moreover, “if debts are paid off in the form of stock rights, the proportion of the fair value of different stock rights in the total should be relied on to conduct allocation” (Liu,2010).

Therefore, this standard essentially required that the exchange of dissimilar assets should be measured at the fair value of the asset received or relinquished, according to the measurement that can be considered as the most reliable one. Gains or losses that derive form the exchange of dissimilar assets must be included as net income in the current period (Bewley, Graham and Peng, 2018).

The requirements issued about the use of fair value in the three standards mentioned were also consistent to the requirements from the correspondent regulation of IFRS (Bewley, Graham and Peng, 2018).

It is interesting now to consider why the Chinese Ministry of Finance decided to introduce the use of fair value in the Chinese Accounting System just since 1997.

Many scholars agree that one of the main reasons for the introduction of fair value in the Chinese Accounting System is the development of the Chinese market and of the Chinese economy (Xu, Cortese and Zhang, 2018). As a matter of fact, the Chinese Ministry of Finance was intentioned to issue standards concerning fair value in the accounting regulation emanated in year 1992 but decided to take a step back as deemed that the Chinese market was still not developed enough to introduce fair value (Qu and

Zhang,2015). In 1997, an orderly market structure and a modern system of companies appeared to be fully established in China and therefore in that historic moment there were finally the basis for the application of fair value measurement (Liu,2010). Furthermore, Chinese companies were also interested in the application of fair value (Xu, Cortese and Zhang, 2018).

Moreover, in 1997, China was envisaging its entrance in the World Trade Organization. As a matter of fact, in December 1995, the WTO established a Working Party on the accession of the PRC, to discuss the conditions for the entrance of China in the Organization (WTO,2001). Entering the WTO was to be certainly favorable for the Chinese economy, as this could enhance the economic relationship between China and other Countries and could enable China to enjoy favorable treatment as a Developing Country, in line with WTO regulation. However, the World Trade Organization asked the Chinese Ministry of Finance to make some changes to become a member. In order to enter the WTO, the use of accounting principles that are recognized worldwide was a fundamental factor. As mentioned before, fair value measurement was already commonly used worldwide, therefore the adoption of the latter could help China with its entry in the WTO, as relevant accounting regulation of member Countries should be as harmonized as possible. This is why, in this period of time, the PRC felt the urge to modify its accounting regulation, in order to adopt new accounting standards that could be more updated and harmonized with international ones (Liu,2010).

Last but not least, in this historic moment China was trying to harmonize its domestic accounting standards with international accounting standards, as the consistency of requirements of the regulation 1997-2000 with IFRS equivalents prove. This was probably done not just to enter the WTO, but also to enhance trade with foreign countries and attract foreign investors. As fair value accounting was already widely known and used in worldwide and in this period of time a very high number of standards concerning fair value were issued, China followed the trend (Liu,2010). Moreover, the fact that China was going to enter the WTO pushed the Chinese Government to speed up the process of harmonization between domestic accounting standards and international accounting standards (Wu, Li and Lin, 2014). In order to follow the practice of other countries and to prove the reliability of its own Accounting System, China had to envisage the use of fair value accounting and to understand how to implement its application (Liu,2010).

1.2 From 2001 to 2005: the abolition of the use of fair value

In January 2001, the Chinese Ministry of Finance issued a new set of accounting standards. This new regulation was composed by a general standard that presented the new regulation and by sixteen specific accounting standards. The Ministry of Finance also revised five existing standards emitted in the regulation of the period 1997-2000, namely "Debt Restructuring", "Non-Monetary Transactions", "Accounting Policies", "Cash Flow Statements" and "Investments" (Chalmers, Navissi and Qu, 2010). The new set of standards emitted did not permit the use of fair value, while the revision of the three standards of the regulation 1997-2000 that permitted it abolished its use. This revision had to be applied retrospectively to previous years. Therefore, since 2001, Chinese standards allowed only the use of historical cost for the measurement of assets and liabilities. Companies had to credit the gains and losses obtained directly to the equity section of their balance sheet, as the standards were plainly asking companies to only use book value in economic affairs (Liu,2010) (Bewley, Graham and Peng, 2018).

The reason for the abolishment of fair value was due to the fact that the latter was used by companies to manipulate profits and to present false information to stakeholders. This criminal use of fair value was very common among companies, and gave birth to a series of famous accounting scandals, such as the cases of Qiong Minyuan and Zheng Baiwen, two famous businessmen that used fair value accounting to boost their profit illegally (Liu,2010) (Bewley, Graham and Peng, 2018). Firms took advantage of the fact that the previous regulation permitted the recognition of gains coming from debt restructuring as income. As a matter of fact, certain companies were able to transform net losses into profits "by engineering a debt restructuring transaction using non-monetary assets to pay off debts"(Bewley, Graham and Peng, 2018). Furthermore, many enterprises used to transfer these gains creating a non-monetary transaction from equity to their managers or majority shareholders, so that the latter could retain these earnings. This procedure was certainly detrimental to minor shareholders (Feng, 2002).

This illegal behavior was so common that Li Jinhua, Auditor-General of the State Auditing Bureau of China, declared that more than two-thirds of the 1290 largest Chinese firms provided false financial information for the year 2000, with a total turnover of illegal money greater than 100 billion Yuan (Bewley, Graham and Peng, 2018). The illegal manipulation of fair value had become the principal method to engineer false accounting numbers (Feng,2002).

According to an officer of the Chinese Ministry of Finance that gave a speech at the International Accounting Standards Board National Standards Setters' Meeting of 2002, there were also other reasons for the abolition of fair value accounting. As a matter of fact, the officer argued that the Chinese market was not active enough to provide quotations to price non-monetary assets at fair value and that non-monetary and debt-restructuring transactions were often arranged between related parties to embellish their financial statements (Feng, 2002).

Therefore, the Chinese Ministry of Finance issued the new Chinese Accounting Standards of year 2001 to "improve the quality of financial reporting of business enterprises in China, foster investors' confidence in financial information, increase transparency of financial reporting, and harmonize with IAS GAAP (namely, the International Accounting Standards GAAP)"(Chalmers, Navissi and Qu, 2010). The new standards were to be "a response to the accounting information crisis caused by misleading financial reporting" (Xiao, Qu and Xiao., 2009). This affirmation was clearly referring to the problems created by the manipulation of fair value.

Chalmers, Navissi and Qu (2010) affirmed that the new Chinese Accounting Standards issued in 2001 were much more consistent with International ones than prior accounting regulations, as the financial statement elements are defined in the same way as the ones that are presented in the framework of the International Accounting Standards Board. Moreover, it presents the requirement to recognize impairment losses on assets and it requires Chinese listed companies to follow one unified financial accounting system rather than industry-specific regulations (Chalmers, Navissi and Qu, 2010).

It is anyway very important to point out that the choice of abolishing the use of fair value made the Chinese Accounting Standards to be further from the harmonization with International Financial Reporting Standards and made financial reports of Chinese listed companies less comparable to those of worldwide listed companies and less understandable to foreign investors, leading to serious complications for China both from a political and an economic point of view (Bewley, Graham and Peng, 2018) (Liu,2010).

The debate about the move of the Chinese Ministry of Finance has been very lively. Nevertheless, the great majority of scholars came to the conclusion that fair value accounting was still, essentially, a reliable method to depict the profit and loss of a company, and that its use to manipulate data for illegal activity is due to two reasons. The first one is that fair value can, unfortunately, be manipulated, and the possibility to do so is increased by immature markets and inactive markets. Therefore, as the Chinese market from 1997 to 2000 was still not ready for the application of fair value, the latter was not able to provide relevant information to shareholders and was easy to manipulate. But this fact is not due to the intrinsic characteristics of fair value, but to the absence of regulation that could prevent companies from manipulating fair value and from the lack of supervision by competent authorities (Liu,2010).[1]

1.3 From 2006 to 2013: the reintroduction of fair value

Ever since the first years of 2000, the Chinese market was changing, becoming increasingly modern and updated, being especially favored by the development of information technology. The number of listed companies in China had grown from 14 in 1992 to more than 1,400 in 2006, and the market capitalization increased, in the same period of time, to 8,940 billion Chinese Yuan (equivalent to $1,120 billion USD) (Peng and Bewley, 2010).

The Chinese economy was therefore developing at a fast pace, and there was the need to use new accounting standards and financial instruments that could be suitable for the new needs of companies and investors.

This is why, on 15th February 2006, the Chinese Ministry of Finance issued a new set of Chinese GAAP, which comprehended 38 accounting standards (which are called CAS, namely Chinese Accounting Standards or ASBE, namely Accounting Standards for Business Enterprises) based on and consisted with the IFRS requirements. These standards concern both listed and non-listed companies and their aim is to help accounting entities providing useful and accurate financial information (Peng and Bewley, 2010).

The 38 standards are named as follows: "Inventories" , "Long-term equity investments" ,"Investment properties", "Fixed assets", "Biological assets", "Intangible

[1] This matter will be dealt with greater depth in the second chapter of this study

assets", "Exchange of non-monetary assets", "Impairment of assets" , "Employee compensation", "Enterprise annuity fund", "Share-based payment" , "Debt restructurings" , "Contingencies" , "Revenue", "Construction contracts" , "Government grants", "Borrowing costs", "Income taxes", "Foreign currency translation", "Business combinations", "Leases", "Recognition and measurement of financial instruments", "Transfer of financial assets", "Hedging", "Direct insurance contracts", "Re-insurance contracts", "Extraction of petroleum and natural gas", "Changes in accounting policies and estimates and correction of errors", "Events occurring after the balance sheet date", "Presentation of financial statements", "Cash flow statements", "Interim financial reporting", "Consolidated financial statements", "Earnings per share", "Segment reporting", "Related party disclosure", "Presentation of financial instruments" and "First time adoption of Accounting Standards for Business Enterprises" (Xiao and Hu, 2017).

Moreover, it is to be said that 25 of these 38 new standards required or permitted the use of fair value accounting for "initial measurement, subsequent measurement, impairment test and disclosure"(Xiao and Hu 2017).

The application of fair value required in these standards can be (depending on the specific requirements of the different standards) mandatory, conditionally mandatory, partially mandatory or voluntary (Xiao and Hu, 2017).

When in a standard it is specified that the application of fair value is mandatory, it means that enterprises are obliged to use fair value in that evaluation. Conditionally mandatory application means that relevant assets or liabilities need to be measured using the fair value measurement method just if they meet certain requirements. Partially mandatory transaction means that certain assets or liabilities can be measured at fair value under certain circumstances. Voluntary application means that the company can decide independently whether to apply or not fair value (Xiao and Hu, 2017).

It is also important to clarify what the standard setter intends for initial measurement, subsequent measurement and impairment test. The initial recognition of an asset is the first time an asset or a liability is measured. The subsequent measurement is the measurement of the same asset or liability that occurs on a different date, which is subsequent to the one in which occurred the initial measurement of the asset or liability considered. The impairment test is an accounting procedure that is aimed at finding out whether an asset is impaired, and has, therefore, lost its previous economic value with time (Xiao and Hu, 2017).

Let’s introduce now the standards issued in 2006 by the Chinese Ministry of Finance and explain which of these allow or demand the use of fair value.

CAS 1 is about inventories. It is stated that, concerning inventories, the use of fair value for initial measurement is partially mandatory, while its use for impairment test is mandatory (Xiao and Hu, 2017).

CAS 2 deals with long-term equity investments. Concerning long-term equity investments, their valuation at fair value is partially mandatory when it comes to initial measurement, while it is partially mandatory when it comes to impairment test (Xiao and Hu, 2017).

CAS 3 states that fair value can be used for the evaluation of investment property. Its use for the subsequent measurement of investment property is voluntary, while its use for impairment test is conditionally mandatory and its disclosure is conditionally mandatory (Xiao and Hu, 2017).

CAS 4 deals with the estimation of fixed assets. Their valuation at fair value for initial measurement and for subsequent measurement is partially mandatory. Even the disclosure of their valuation at fair value is partially mandatory, while for impairment tests the use of fair value is mandatory (Xiao and Hu, 2017).

CAS 5 is about biological assets. The application of fair value for their evaluation is partially mandatory for the initial measurement, while it is conditionally mandatory for subsequent measurement and mandatory for impairment tests (Xiao and Hu, 2017).

CAS 6 deals with the measurement of intangible assets. The application of fair value for their initial measurement and subsequent measurement is partially mandatory, while it is mandatory for impairment test (Xiao and Hu, 2017).

CAS 7 is about the exchange of non-monetary assets. The application of fair value in this case, both for initial measurement and for subsequent measurement is conditionally mandatory (Xiao and Hu, 2017).

CAS 8 shows that, concerning impairment of assets, the valuation at fair value is mandatory for impairment test and for disclosure (Xiao and Hu, 2017).

CAS 9, about employee’s benefits, does not require the use of fair value (Xiao and Hu, 2017).

CAS 10 is about enterprise annuity fund, in this case, the application of fair value is mandatory for initial measurement, subsequent measurement and disclosure (Xiao and Hu, 2017).

CAS 11 states that when it comes to share-based payment, the use of fair value in initial measurement, subsequent measurement and disclosure is mandatory (Xiao and Hu, 2017).

CAS 12 shows that, concerning debt restructuring, the use of fair value is partially mandatory for initial measurement and mandatory for disclosure (Xiao and Hu, 2017).

In CAS 13, which is about contingencies, the use of fair value is not required (Xiao and Hu, 2017).

CAS 14 deals with revenues, and the application of fair value is partially mandatory for initial measurement (Xiao and Hu, 2017).

CAS 16, about government grants, states that the use of fair value is partially mandatory for initial measurement (Xiao and Hu, 2017).

CAS 17 (“Borrowing costs”), CAS 18 (“Income taxes”) and CAS 19 (“Foreign currency translation”) do not require the use of fair value measurement (Xiao and Hu, 2017).

CAS 20, about business combinations, states that the use of fair value is partially mandatory for both initial measurement and disclosure (Xiao and Hu, 2017).

CAS 21 is about leases, whose evaluation at fair value is partially mandatory for initial measurement and disclosure (Xiao and Hu, 2017).

CAS 22 deals with recognition and measurement of financial instruments. In this case, the use of fair value is mandatory for initial measurement, partially mandatory for subsequent measurement, mandatory for impairment test and partially mandatory for disclosure (Xiao and Hu, 2017).

CAS 23, about the transfer of financial assets, states that their evaluation at fair value is mandatory for both initial and subsequent measurement (Xiao and Hu, 2017).

CAS 24 is about hedging. It is stated in the document that the evaluation of hedge funds at fair value is mandatory for both initial and subsequent measurement (Xiao and Hu, 2017).

CAS 25 (“Direct insurance contracts”) and CAS 26 (“Reinsurance contracts”) do not require or allow the use of fair value (Xiao and Hu, 2017).

CAS 27, which is about the extraction of petroleum and natural gas, states that in this case the application of fair value is partially mandatory for both subsequent measurement and impairment test (Xiao and Hu, 2017).

CAS 28 (Accounting policies, changes in accounting estimates and correction of errors) and CAS 29 (events after the balance sheet date) do not mention fair value (Xiao and Hu, 2017).

CAS 30, namely “presentation of financial statements”, revised on 29th January 2014, states that the application of fair value is mandatory for disclosure (Xiao and Hu, 2017).

CAS 31 is about cash flow statements and require the mandatory use of fair value for disclosure (Xiao and Hu, 2017).

CAS 32 (“Interim financial reporting”), CAS 33 (“Consolidated financial statements”), CAS 34(“Earnings per share”), CAS 35 (“Segmental reporting”) and CAS 36 (“Related party disclosures”) do not require the use of fair value (Xiao and Hu, 2017).

CAS 37, which is about presentation of financial instruments and was revised on 11th 2014 establishes that the use of fair value must be mandatory for disclosure (Xiao and Hu, 2017).

CAS 38 deals with the first-time adoption of CAS for business enterprises. It mentions the fact that in this case the use of fair value must be mandatory for initial measurement, subsequent measurement and disclosure (Xiao and Hu, 2017).

These standards clearly show that the use of fair value has been reintroduced in Chinese accounting standards and that the Chinese accounting standards were designed to be consistently convergent with IFRS.

But to what extent is the use of fair value required in the new set of reforms of year 2006 consistent with the requirements for the use of fair value of IFRS?

For what concerns the definition of fair value, fair value measurement for financial instruments, fair value disclosure requirements and the use of fair value for the basis for cost allocation, the Chinese accounting standards have the same requirements of the IFRS, while there are numerous divergencies in the initial and subsequent fair value measurements for many long-term non-financial assets. (Peng and Bewley, 2010)

As Peng and Bewley (2010) have underlined in their research, there are four categories of divergence that can be found when comparing CAS 2006 to IFRS.

The two scholars affirm that the first category can be found as the application of fair value is very pragmatic in China, and therefore the differences that may exist in the Chinese standards are due to the necessity to conform standards to the specific requirements of the Chinese circumstances. For instance, CAS 2006 forbids the use of techniques to evaluate fair value of investment properties and biological assets. This is because China has a less developed market economy and inadequate pricing methods to calculate non-financial instruments (Peng and Bewley, 2010).

The second category of divergence occurs to prevent companies from cheating on the declaration of earnings. This is one of the main concerns of the Chinese Government, as it wants to avoid the illegal speculation that occurred before 2001. For instance, CAS do not allow the change in accounting for investment property from a fair value model to a cost model (Peng and Bewley, 2010).

The third category of divergence occurs as the Chinese Government refused to adopt the same requirements of IFRS when it believed that a certain issue had not been addressed well by International Financial Reporting Standards. This is why, for instance, fair value for business combinations under common control is not applied in China (Peng and Bewley, 2010).

The fourth category comprehends differences whose reason to exist has not been explained by Chinese authorities. This is the case of initial recognition of investment property, which is measured at fair value under IFRS but at cost or price under CAS (Peng and Bewley, 2010).

The fact that China has adopted principle-based financial reporting and has reintroduced fair value accounting has undoubtedly helped the convergence between Chinese accounting standards and IFRS, marking a turning point in the history of the Chinese Accounting System (Zhang and Andrew, 2016).

Moreover, the reintroduction of fair value, according to academics, was not just favored by the flourishing of the Chinese economy: it was also one of the reasons for its development (Zhang and Andrew, 2016).

As a matter of fact, it is undeniable that proper and trustable accounting standards and methods are necessary for the economic situation of a Country to improve, and fair value, used efficiently, proved to be a great ally for the development of China.

It is nevertheless interesting to analyze how the Chinese Ministry of Finance resolved to change its mind on the use of fair value.

Scholars agreed that the main reason for the reintroduction of fair value accounting is its superior quality and reliability compared with other accounting methods. As Liu (2010) has underlined, fair value measurement “is characterized by its emphasis on authenticity, fairness and reliability, which serve as the ultimate goal for China’s accounting practice” Liu (2010).

Therefore, fair value appears to be the best method to show the reality of the economic conditions of the enterprises and to help investors in taking right decisions.

Moreover, many scholars agree that the development of the market economy has favored the use of fair value. As a matter of fact, as the rise of the Chinese GDP was stunning, the historical cost measurement method has become obsolete and unable to show the operational risks of companies. As a matter of fact, the Chinese financial market evolved and became more complex and refined. It is undeniable that, in order to measure the new financial instruments, fair value is a lot more appropriate than the historical cost method (Liu,2010).

For instance, as the derivative financial tools became more commonly used in China, it became harder for the historical cost method to survive, as derivatives do not have fixed forms and do not undergo real transactions. Fair value could be the only method to examine derivatives, as it can also express a possible outcome, while historical cost is transaction-based (Liu,2010).

Therefore, as derivatives exist before any transaction occurs, historical cost is not adequate for their measurement. If historical cost was to be employed to estimate the value of derivatives, it would be impossible to evaluate the derivative before its settlement date (Peng and Bewley, 2010).

Scholars also suggest that China had to adopt fair value accounting again as the Country, after its entrance in the WTO was geared to international accounting standards. The choice to reintroduce fair value was also a move to reassure foreign investors and to narrow the differences between the Chinese Accounting System and the International Accounting System (Liu,2010).

The reintroduction of fair value is also a sign that the Ministry of Finance realized that forbidding the use of fair value was not an effective way to prevent fraudulent reporting. As a matter of fact, the only possible way to prevent fraudulent reporting is intensifying the control of the authorities over the actions of the companies and to increase the related regulation (Liu,2010).[2]

1.4 From 2014 onwards: the issuance of CAS 39

From 26thJanuary 2014 a new accounting standard was introduced by the Ministry of Finance: CAS 39 or ASBE 39[3], an accounting standard that dealt uniquely with the application of fair value.

After the numerous requests of scholars to edit a document that would explain in detail how to use fair value correctly, the Ministry of Finance finally issued a comprehensive document that could lead enterprises in the application of fair value. All the useful and most adjourned information about fair value can therefore be found in the document, that is a valuable instrument for all Chinese companies.

The Ministry itself, at the beginning of the document, says that CAS 39 was issued “in order to meet the needs of the development of the socialist market economy, standardize the measurement and disclosure of fair value of enterprises, and improve the quality of accounting information” (CAS 39, 2014).

[2] This matter will be dealt with greater depth in the second chapter of this study
[3] ASBE is the direct translation of the name that these standards have in China, namely “Accounting Standards for Business Enterprises”, while CAS is the name that the international accounting community gives to Chinese Accounting Standards, namely “Chinese Accounting Stanadrds”.

It can be affirmed that the requirements of CAS 39 are almost exactly the same as the ones of IFRS 13. As a matter of fact, Zhou (2018), comparing the two standards, has found out that they are extremely similar. As a matter of fact, they share the same title, the same definition of fair value, the main contents, the exceptions and the valuation techniques. Therefore, Zhou believes that it is legitimate to believe that the Chinese Ministry of Finance has chosen to adopt IFRS 13 (Zhou,2018).

The requirements of CAS 39 were to be applied from 1st July, 2014 (CAS 39, 2014).

The first chapter contains the general provisions of this accounting standard (CAS 39, 2014).

Article 1 states that the document basically contains some guidelines that need to be followed by all Chinese enterprises using Chinese GAAP. This document also contains requirements concerning the measurement and the disclosure of fair value (CAS 39, 2014).

Article 2 gives a brief definition of fair value, stating that it “refers to the orderly settlement of market participants on the measurement date of the transaction, and consists in the price for selling an asset or receiving a liability” (CAS 39, 2014).

Article 3 clarifies that this standard applies also to other Chinese accounting standards that require or allow the use of fair value (CAS 39, 2014).

Article 4 states that there could be cases where measurement and disclosure of measurement or certain assets and liabilities should be done following the requirements other standards that are not CAS 39.

Article 5 defines in which cases assets or liabilities should be evaluated according to the requirements of different standards (CAS 39, 2014).

The second chapter instructs on how to evaluate assets and liabilities.

Article 6 explains that every enterprise shall consider the characteristics of assets and liabilities that need to be evaluated. When pricing, the status and location of the asset or liability needs to be considered, as well as any restrictions in their sale or use (CAS 39, 2014).

Article 7 confirms that assets and liabilities measured at fair value may be of different kinds, such as single assets or liabilities (such as a financial instrument, a non-financial asset, etc.), portfolios of liabilities, portfolios of assets or portfolios of assets and liabilities (as described in CAS 8 and CAS 20). These assets or liabilities may be calculated individually or in combination, and the choice of measurement unit (individual or in combination) must be specified (CAS 39, 2014).

Chapter 3 deals with orderly trading and orderly market (CAS 39, 2014).

Article 8 states that "an enterprise shall measure at fair value assets or liabilities that, at the measurement date, are traded in an orderly transaction in the current market". With the expression "orderly transaction" is meant that "the relevant asset or liability has been traded in customary market activities" (CAS 39, 2014). It must be underlined that not all transactions can be considered orderly. For instance, forced transactions such as liquidation are not orderly transactions (CAS 39,2014).

Article 9 says that when an enterprise measures assets or liabilities at fair value, it must assume that orderly transactions (that consist in the sale of assets or in the transfer of liabilities) occur in the main market of assets or liabilities. The main market is the one where the largest volume of transactions of assets and liabilities takes place. If there is no possibility in determining the main market, the enterprise must assume that the transaction takes place in the most favorable market for debt. The most favorable market is the one where, considering transaction costs and transportation costs, sales of related assets reach the highest value or the transfer of related liabilities occurs at a minimum amount (CAS 39, 2014).

Article 10 suggests that when it comes to identifying major markets (or the most favorable markets), enterprises must consider all the available information, and the market that must be chosen is the one where the company usually sells assets or transfer liabilities or the one that could be considered the most favorable one (CAS 39, 2014).

Article 11 states that assets or liabilities may have different major markets or different most favorable markets (CAS 39, 2014). If this fact occurs, it must be disclosed.

Article 12 points out that "an enterprise shall measure relevant assets or liabilities in major markets using fair value. If there is no major market, the enterprise must use the most favorable market price using fair value to measure assets or liabilities" (CAS 39, 2014).

Article 13 says that when there is no observable market that can provide price information related to the sale of assets or the transfer of liabilities on the measurement date, companies may find other ways to estimate the price at fair value, using the input values that will be described later in chapter 19 (CAS 39, 2014).

The comes Chapter 4, that deals with the description of market participants and states who they are and how they should behave (CAS 39, 2014).

Article 14, as a matter of fact, depicts who market participants are. Namely, they are buyers and sellers who have the following characteristics:

(1) “Market participants must be independent from one another, as previously stated in CAS 36 ;

(2) “Market participants must be familiar with the situation of the market considered and be able to have a reasonable understanding of the relevant assets or liabilities and transactions”;

(3) “Market participants must be able and willing to carry out assets’ or liabilities’ transactions”(CAS 39, 2014).

Article 15 states that market participants are those buyers and sellers that trade in the principal market of the asset or of the liability concerned (CAS 39, 2014).

Chapter 5 is about the initial measurement of fair value. It gives precious suggestions on how to apply fair value and how to proceed with its calculation (CAS 39, 2014).

In article 16 is written that “an enterprise shall, according to the nature of the transaction and the characteristics of the relevant assets or liabilities, determine whether the fair value at the time of initial recognition is equal to its transaction price” (CAS 39, 2014). The value of relevant assets or liabilities at initial recognition is usually equal to its transaction price, even if there could be exceptions in some cases. For instance, this is the case of transactions which occurred between related parties. But in this case, the company that is participating to the transaction needs to prove that the transaction still respects market conditions. Another possible explanation is that the transaction is a forced transaction (for instance, liquidation). Another reason could be the fact that the measurement unit represented by the transaction price is different. It is also possible that the trading market is not the main market or the most advantageous market for the assets or liabilities concerned (CAS 39, 2014).

Article 17 states that even other relevant Chinese standards may require or allow the use of fair value for initial measurement of assets or liabilities. Moreover, if the transaction price is not consistent with fair value, the company must include related gains or losses into current profit and loss, unless specified otherwise in the calculation guidelines (CAS 39, 2014).

Chapter 6 deals with the valuation technology that every enterprise should adopt when estimating an asset or a liability at fair value. Valuation technology is undoubtedly one of the most discussed and important parts of the regulation of fair value, and its explanation in this standard is fundamental to help accountants and to improve the clarity of the procedures that need to be followed to apply fair value correctly (CAS 39, 2014).

Article 18 states that a company, when using fair value to measure related assets and liabilities, must adopt estimates that are applicable for the transaction and support those estimates with sufficient and adequate data and information. The company must, moreover, use valuation technology to calculate the current market price at the measurement date considered (CAS 39, 2014).

But how to know the valuation techniques to be used to measure relevant assets and liabilities at fair value?

Article 18 informs that the most adequate measurement techniques are the market method, the income method and the cost method. Companies are invited to use one or more of these methods, as these are considered reliable valuation techniques. Companies, however, are free to choose the valuation technique they want to adopt, but they must always consider the reasonability of each valuation result. Then, the standard explains the characteristics of each approach, in order to give a better picture of the options that companies have when it comes to choose the valuation method to apply fair value.

Article 19 clarifies how to use ad apply input values. The input value is the value used by market participants when it comes to determine the price of assets and liabilities. There are two different types of input values: the observable ones and the unobservable ones. The observable ones can be obtained by observing actual market data, while unobservable ones are based on assumptions. In this article it is stated that companies, when it comes to the application of valuation technology, must give priority to the use of observable input values. It is allowed to use unobservable input values just when observable input values are unavailable or are impractical to use (CAS 39, 2014).

Article 20 states that companies must use transaction price as fair value when it comes to initial measurement, while valuation techniques based on unobservable inputs can be used in the subsequent measurement of fair value. Moreover, the valuation technique must be corrected during the evaluation process so that the confirmation result is equal to the transaction price. Enterprises must make sure that the valuation technique reflects the observable market value at the measurement date (CAS 39, 2014).

Article 21 establishes that the technology used to measure fair value cannot be changed. Therefore, once the method that will be used is established, there can be no changes in the method, except when a new situation occurs, such as the appearance of new markets, the obtaining of new information, the impossibility to obtain previously used information, the improvement of valuation techniques and the changes in market conditions. Changes in valuation estimates and changes in valuation techniques and their applications must always be disclosed. Anyway, If the enterprise judges that there is need to disclose more information, companies can proceed disclosing them (CAS 39, 2014).

Article 22 states that companies must disclose the relevant information concerning inputs. Another important subject that is present in this article is the instruction on how to use the discount or premium. As a matter of fact, it is stated that companies "should not consider discounts or premiums arising from their large holdings of related assets or liabilities". Moreover, if the market's normal daily trading volume is not sufficient, market participants are allowed to make adjustments to the quoted price of assets or liabilities concerned. Anyway, companies must always disclose if they have adjusted the quoted price of an asset or of a liability (CAS 39, 2014).

Article 23 teaches how an enterprise should behave in case of bid. As a matter of fact, when another company is asking for a price, the enterprise must behave fairly and be as close as possible to the reality of the situation between the bid and the asking price. Article 23 also suggest businesses to use bid meters to measure the asset position and use the asking price to measure the liability position (CAS 39, 2014).

Chapter VII is one of the most instructing chapter on the theory of fair value and on its use. As a matter of fact, it is known that fair value has three levels, and this part of regulation instructs users on what are the characteristics of the different levels of fair value and how they can be used (CAS 39, 2014).

Article 24 states that an enterprise should, when measuring some asset or liability at fair value, preferably use the first level input value, then the second level input value and finally the third level input value. The input value of the first level is the same as the price of assets or liabilities that can be obtained at the measurement date. Of course, the use of the first level of fair value is typical of active markets, namely “markets where the volume and frequency of transactions are sufficient to continue to provide pricing information” (CAS 39, 2014).

The input value of the second level is still an observable input value that is based on other data values or market prices that are not the transaction price of the asset or of the liability considered at the measurement date (CAS 39, 2014).

The third level input value is the unobservable input value of the asset or liability concerned. Companies must determine whether the input value used is relevant based on the characteristics of the asset or liability. As a matter of fact, “the level of value measurement results depends on the input value of the valuation technology, not the valuation technology itself”(CAS 39, 2014).

Article 25 states that, if companies trade assets and liabilities in an active market, they must try to apply the first level of input, as the latter can be considered the most reliable one. The first level of input must be applied to the asset or liability without adjustment, except if one of the following situations occurs. For instance, if enterprises own a lot of different assets or liabilities with similar characteristics, whose market quotation is active but difficult to obtain, they can separately price assets or liabilities at the measurement date and use other valuation models that do not rely solely on quotes. This is also the case when the quoted price in an active market fails to represent the fair value at the measurement date. As a matter of fact, major events affecting fair value measurement may occur and result into a failure to represent quotes in active markets. Therefore, when companies quote similar assets in active markets, they must divide the fair value measurement results into lower levels for adjustment (CAS 39, 2014).

Article 26 describes how to use the second level of fair value measurement. As a matter of fact, a company can use the second level of fair value measurement to measure relevant assets or liabilities. In any case, enterprises need to consider the characteristics of the asset and liability and to disclose them. The characteristics that should be taken into account and disclosed must be the asset condition or location, the input values and the relevance of the latter to similar assets or liabilities (as written in the article 34 of these Standard), the trading volume and the activity of the market where the input value can be observed. For related assets or liabilities that have to follow a specific period such as contract period, the second level input value must be observable for almost the entire period (CAS 39, 2014).

Article 26 also specifies that the second level input values include quoted prices of similar assets or liabilities that are traded in an active market, quoted prices of the same or similar assets or liabilities in inactive markets, other observable input values other than the quotation (including in the normal quotation, observable interest rate and yield curves, implied volatility and credit spreads at intervals), the input value of market verification, etc. (CAS 39, 2014)

Article 27 clearly states that a third level input of fair value is to be used just in case the use of the first and second level is unfeasible. Consequently, the use of third level fair value should not be frequent, as market activities rarely result in unobtainable or impractical related observable inputs. Unobservable inputs must "reflect market participants' determination of relevant assets or liabilities price assumptions, including assumptions about risks" (CAS 39, 2014).

Article 28 affirms that "when determining an unobservable input value, an enterprise shall use the best information reasonably available under the previous circumstances, including all reasonably available market participation and assumptions". Of course, enterprises can use internal data as unobservable inputs, but they must try to consider if this practice is convenient, as other market participants may be willing to use other data, or if the internal data that they would use is not available to other market participants. Moreover, companies must consider that, if the internal data they are willing to use has industry-related characteristics, enterprises must make corresponding adjustments (CAS 39, 2014).

Chapter VIII clarifies how fair value can be used to measure non-financial assets (CAS 39, 2014).

Article 29 states that when an enterprise has to estimate the fair value of non-financial assets it has to do it to allow market participants to use the asset in the best way possible to generate economic benefits. The best use that market participants can do of the asset occurs when the asset portfolio is maximized (CAS 39, 2014).

Article 30 affirms that a company that want to decide which is the best use for an asset must first consider what the law says about the best use for the asset that it is willing to choose: is this best use allowed, physically possible and financially feasible? To make sure that these questions are favorably answered, the enterprise must first determine whether the use of non-financial asset is permitted by the law and consider the legal use of the asset when proceeding to price it, then decide whether the use of non-financial assets is physically possible and take into account the physical characteristics of the asset when pricing it, and finally judge if the use of non-financial assets is financially feasible and if it can produce a sufficient income or cash flow to meet the expected investment return (CAS 39, 2014).

Article 31 is clear about the fact that companies must judge non-financial assets from the perspective of the best use of market participants. It must be said that, under normal circumstances, the current use of non-financial assets can also be considered their best use, unless there are factors that can deny it (CAS 39, 2014).

Article 32 gives some precious advice on how to measure non-financial assets at fair value. This article lists the following valuation prerequisites. First, if market participants must try to sell a single non-financial asset to generate maximum value. It is also stated that if market participants associate a non-financial asset with other assets, the asset considered must be sold to a market participant that uses the assets in the same combination. In article 32 is also written that companies need to determine what is the best use of the asset judging from the perspective of market participants (CAS 39, 2014).

Chapter IX states what is to be done to measure liabilities and the equity instruments of enterprises (CAS 39, 2014).

In article 33 it is written that when a company measures liabilities using fair value, it must assume that, on the measurement date, the liability is transferred to other market participants and it continues to exist even after the transfer. The market participants that receive the liability must perform their obligations related to the acquisition of the liability. When an enterprise measures its own equity instruments at fair value, it shall assume that these instruments are transferred to market participants and that these equity instruments will not cease to exist after the transfer. The new owner of these equity instruments, after the transfer, will assume corresponding rights and obligations (CAS 39, 2014).

Article 34 states what are the guidelines that a company must adopt when measuring liabilities or equity instruments at fair value. First, enterprises must use as an example any observable market that presents liabilities and equity instruments that are similar to the ones that the company owns. If there is a quotation of the liability or of the equity instrument at hand, the valuation at fair value of the liability and of the equity instrument must be determined on the basis of the value of the quotation. If there is no observable market for the same or similar liabilities or the enterprise's own equity instruments, the enterprise shall, from the perspective of market participants, determine the fair value of liabilities or own equity instruments taking into account their characteristics. For instance, to determine the fair value of assets and liabilities, assets that are similar to measured liabilities or the company's own equity instruments may be used. In case there is no observable market for the same or similar liabilities or the enterprise's own equity instruments, but these liabilities and equity instrument are quoted, the company can evaluate them on the basis of their quotation, using one of the beforementioned valuation techniques (CAS 39, 2014).

Article 35 is clear about the fact that companies that are measuring a liability at fair value must consider non-performance risk before and after the transfer of the liabilities considered. As a matter of fact, it is stated in this article that “non-performance risk refers to the risk of a company's non-performance of an obligation, including but not limited to the industry's own credit risk” (CAS 39, 2014).

In article 36 is stated that, when an enterprise measures its liabilities or its equity instruments at fair value, if there are restrictions on transfer of the liability or of its equity instruments, and if the fair value calculation has been considered in the input value of the quantity, input values must not be adjusted (CAS 39, 2014).

In article 37 it is written that, “if a financial liability with specific characteristics is to be repaid, the fair value of the financial liability shall not be lower than the debt” (CAS 39, 2014).

Chapter X is about the relationship among market risk or credit risk and fair value measurement of financial assets and financial liabilities (CAS 39, 2014).

Article 38 states that the exposure of financial assets and liabilities to market risk and credit risk can be measured by market participants in the current market conditions to sell net long positions (as, for instance, assets) or transfer net short positions (as, for instance, debt) (CAS 39, 2014).

Article 39 explains that when companies measure the fair value of financial assets and of a combination of financial assets and liabilities the in accordance with Article 38 of CAS 39, the following conditions must be met. First, the formal written documents of the enterprise must state that the industry manages funds based on the net exposure of specific market risks or specific counterparty credit risks. Then, the enterprise must disclose its exposure to specific market risk or specific counterparty credit risk. Finally, the company has to measure the financial assets and liabilities in the portfolio at fair value on each balance sheet date (CAS 39, 2014).

Article 40 states that, when it comes to determine the fair value of the financial asset or liability portfolio, the financial assets’ and financial liabilities’ market risk and duration should be essentially the same. Enterprises must measure financial assets and financial liabilities in accordance with Article 38 of CAS 39. Moreover, companies must consider the effect of the net credit risk exposure of a particular counterparty (CAS 39, 2014).

In article 41 it is also declared that If an enterprise adopts the provisions of article 38 of this standard, it shall also follow CAS 28, namely “Accounting policies, changes in accounting estimates and correction of errors” (CAS 39, 2014).

Chapter XI is undoubtedly one of the most valuable chapters of CAS 39. It deals with the disclosure of important information concerning fair value, which is a fundamental subject in order to present the valuable information that can be acquired with the use of fair value (CAS 39, 2014). It is anyway important to point out the fact that also other Articles of this standard require the disclosure of information in annual reports.

In article 42 is written that an enterprise shall, based on the nature and characteristics of the relevant assets or liabilities, choose to apply the level of fair value measurement that is more adequate to them. Moreover, the company must group properly assets or liabilities, and disclose the relevant information of fair value measurement by group. In order to determine the grouping of assets and liabilities, companies must present the various groups in the balance sheet and disclose the information of each group (CAS 39, 2014).

Article 43 informs that enterprises must distinguish between recurring fair value measurement and non-recurring fair value measurement in the balance sheet. Recurring fair value measurement occurs when, in subsequent and initial recognition, fair value measurement of certain assets or liabilities are required to appear on each balance sheet date (CAS 39, 2014).

Non-continuous fair value measurement occurs when the measures at fair value of certain assets and liabilities appear in the balance sheet just in certain circumstances, such as when a particular event or transaction happens (CAS 39, 2014).

In article 44 it is declared that every asset and liability of each group needs to be described in the notes of the balance sheet. Furthermore, the company must declare if there are other relevant Chinese accounting standards that require or allow enterprises to measure assets and liabilities at fair value. It is then very important to specify the level of fair value measurement that is to be used. If the company intends to switch between fair value levels, it must declare why and clearly determine the amount of time necessary to switch policies.

Moreover, each level of transfer in and transfer out must be disclosed separately. For the second-level fair value measurement, the enterprise shall use descriptive information about valuation techniques and input values. When changing valuation techniques, companies must also say why this change occurs and when it will be carried out. For the fair value measurement of the third level, the enterprise shall "disclose the use of descriptive information on valuation techniques, inputs and valuation processes" (CAS 39, 2014). When changing valuation techniques, companies must also disclose this change and the reasons for the change. Enterprises are required to disclose fair prices. For the fair value measurement at the third level, "the enterprise shall disclose the opening balance and the reconciliation information between the amount and the period-end balance, including realized gains included in the current profit and loss statement" (CAS

39, 2014).In addition to that, the company must disclose total loss or loss, and include in the current period “the items of profit or loss when these gains or losses were recognized”. (CAS 39, 2014) Also total unrealized gains or losses and their recognition must be disclosed. Profit and loss items at the time, “such as gains and losses from changes in the fair value of related assets or liabilities”, should be also revealed (CAS 39,2014). Finally, total gains or losses of other comprehensive income in the current period and their recognition, as long as other comprehensive income items at the time of loss must be shown, while related assets or liabilities for purchase, sale, issuance and settlement must be disclosed separately. For the third level of fair value measurement, when the unobservable input is changed and this may cause a significant change in fair value, the enterprise should disclose the relevant descriptive information. If there is a correlation between these input values and other unobservable input values used companies must describe this correlation and its impact. Considering financial assets and financial liabilities, it is assumed that changing one or more unobservable input values will result in a significant change in fair value, therefore the enterprise must also disclose the change made, the impact of the change and the calculation method used. Moreover, if the best use of non-financial assets is different from its current use, the enterprise must disclose this fact and the reason why it occurs (CAS 39, 2014).

Article 45 declares that the considered enterprise must disclose the following information in the notes for at least each group of assets and liabilities that are measured at non-recurring fair value. First, it must be disclosed if there are other valuable regulation that allow or ask to continue to evaluate, in certain conditions, these amounts at fair value, as well as the reason for the original measurement at fair value. Then, of course, the level of fair value measurement must be disclosed. Moreover, concerning the second level of fair value measurement, the enterprise must disclose descriptive information about valuation techniques. When changing valuation techniques, companies must also disclose the change and explain why the decision to change was taken. For the third level of fair value measurement, the enterprise must disclose “descriptive information about valuation techniques, input values, and valuation processes” (CAS 39, 2014). When changing valuation techniques, enterprises still need to disclose this change and the reason for the change. Enterprises should also disclose fair prices. The company also has to show if the best use of non-financial assets is different from its current use, and the reason why this occurs (CAS 39, 2014).

Article 46 states that the enterprise will have to adjust the fair value measurement level at the relevant time and that accounting policies must be consistent in all accounting periods and consistent with what is written in article 44 of this standard (CAS 39, 2014).

Article 47 specifies that if enterprises adopt the accounting policies must be consistent for all the period of time concerned (CAS 39, 2014).

Article 48 states that, for each group of assets and liabilities disclosed at fair value, enterprises shall comply with Article 44 of this standard, especially when it comes to disclosure of the valuation process and use of the third level fair value measurement. When using the latter, it is important that the company uses relevant quantifiable information about unobservable inputs (CAS 39, 2014).

Article 49 clarifies that, in case of existence of third-party credit enhancement liabilities, the issuer must disclose this fact and make sure that the credit enhancement has been reflected in the fair value measurement of the liability (CAS 39, 2014).

Article 50 declares that enterprises must disclose the quantitative information required by these standards in the form of a table, unless other forms are deemed to be more appropriate (CAS 39, 2014).

Chapter XII deals with cohesion provisions (CAS 39, 2014).

Article 51 states that if the measurement at fair value of an asset or a liability has been done before the implementation date of this standard, and for this reason there are inconsistencies with what this standard requires and what is shown at the measurement, the company is exempted by making retrospective adjustments (CAS 39, 2014).

In article 52 is written that if the information presented into a comparative financial statement that was published before the date of official implementation of this standard, the enterprise does not need to adjust it in accordance with the provisions of this standard (CAS 39, 2014).

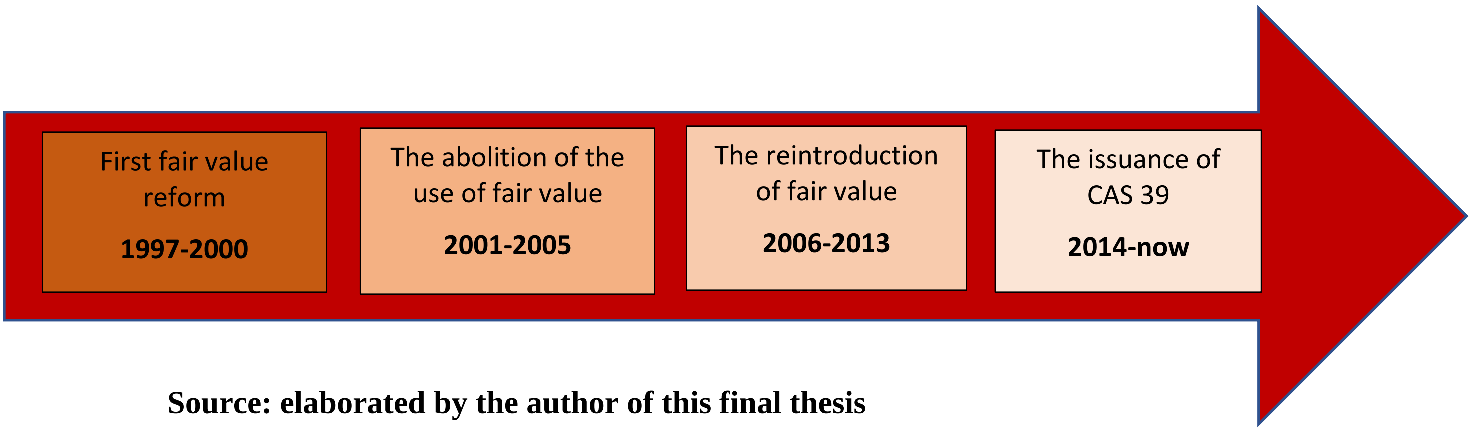
Chapter XIII is the last chapter of this standard and its title is “Supplementary Provisions” (CAS 39, 2014).

Its only article, namely article 53, is declared that the guidelines that can be found in this document shall be implemented by all Chinese companies as of July 1, 2014 (CAS 39, 2014).

CAS 39 is a fundamental and revolutionary document in the regulation of fair value in China. All the regulation concerning fair value is finally grouped into one document, making it easier for companies to understand what is the procedure to follow when measuring an asset or a liability at fair value.

All the information concerning the use of fair value, from the calculation method to the disclosure aspect, is present in this standard. It can be said that the issuance of CAS 39 marks the last phase in the historical evolution of the use of fair value in the Chinese Accounting System, as shown in Graph 1.

Graph 1: The phases of the historical evolution of the use of fair value in the Chinese Accounting System



Source: elaborated by the author of this final thesis

In CAS 39, also the theorical part on what is fair value and what are its different levels recurring has been covered deeply and clearly. As now, in China the use of fair value accounting is still allowed and fair value is finally recognized by many Chinese scholars as a worthy and reliable mean to display companies' performances and to help investors in making choices (Zhang and Andrew, 2016).

The convergence with IFRS standards and the reintroduction of fair value accounting therefore needs to be seen as an opportunity to help China to further develop economically, to improve accounting practices and to attract foreign investors.

Unfortunately, the adoption of fair value measurement is still debated for many reasons. For instance, many scholars consider the Chinese market not yet developed and ready for it. Anyway, being cautious about the use of fair value should not impede the economic development. China is becoming more and more important globally and its economic market is improving, and it is unthinkable that the modernization of the Country should leap back because the accounting standards are not adjourned in order to meet the new needs of companies, of the market and of stakeholders.

Chapter 2: Literature concerning the application of fair value in the Chinese Accounting System

2.1 The reasons for the application of fair value in China

As stated in the previous chapter, Chinese listed companies started to apply fair value again since 2007.

The troubles that led the Chinese Ministry of Finance to declare the use of fair value illegal seems now forgotten. As witnessed by the empirical study published by Xiao, Qu and Xiao (2009), the implementation of the new accounting standards in 2007, which implied a reintroduction of fair value measurement, has helped the enhancement of the value relevance of asset exchange.

Even if this research could be proof of a positive outcome resulting from the reintroduction of fair value in Chinese accounting standards, many academics did not agree on the fact that fair value could be beneficial and suitable for the Chinese reality.

Many scholars have expressed their thoughts on the matter and given their opinion about fair value application and implementation in China, as well as suggestions that could help the correct use of fair value in the Country.

To understand the opinion of Chinese scholars, the research of Zhang and Andrew (2016) is extremely precious.

As a matter of fact, Zhang and Andrew (2016) have analyzed the writings of Chinese accounting experts from 2006 to 2010 published on the “Accounting Journal”.

From the study emerged the fact that there were twenty-five articles about the use of fair value in China. Twenty of them called for a responsible and correct use of fair value, two were against the use of fair value, while just one did not express an opinion about the use of fair value.

From the analysis of the related literature, it seems that, according to scholars, the main reason for the reintroduction and the use of fair value accounting in China is that fair value can be considered of natural superior factors (Liu, 2010).

As sustained by the accounting scholar Liu (2010) “fair value, a factual measurement of assets value, is characterized by its emphasis on authenticity, fairness and reliability, which serve as the ultimate goal for China’s accounting practice”.

Fair value is, undoubtedly, a valuable instrument that can help users of financial statements.

As a matter of fact, fair value can depict clearly the economic situation of an enterprise and can be helpful in allowing its users to make good economic decisions. It has been proven that fair value measurement is able to present information that is more relevant compared to the one that traditional measurement methods, such as the historical cost one, can provide (Zhang and Andrew 2016).

This is why, according to Lu (2006), the high degree of relevance of fair value entitled it to be the basis for the measurement of assets and liabilities in the 21^{st} Century.

Moreover, fair value is a great valuation method that can help eliminate the information asymmetry between companies and stakeholders. The use of the latter has to be favored as it enhances quality of financial statements (Liu, 2010).

Therefore, it can be affirmed that the enhancement of the accounting practices may also depend on the knowledge and the use of fair value, as Ge and Xu declared in 2006.

Fair value accounting is clear, precise and favors the transparence of companies towards anyone who could have an interest in knowing their economic position (Liu, 2010).

Fair value accounting is also able to show if the decisions taken by the management level were detrimental or good for the company considered (Liu, 2010).

Moreover, new financial instruments of the volatile business environment, such as options, futures and forward contracts, require new measurement patterns, as they do not have fixed forms and cannot go through real transactions. Therefore the only measurement pattern that could establish their value properly is fair value, while historical cost measurement is utterly useless (Liu, 2010) (Xia and Shao, 2006).

For the reasons stated above, fair value accounting appears to be extremely reliable and user-friendly, as it helps providing information that could be extremely useful for stakeholders and investors (Liu, 2010) (Barth, 2006).

As a matter of fact, if fair value is applied correctly, it can easily convey the true value of an asset or a liability (Ge, 2007) and could be “the most significant indicator of a firm’s performance” (Luan, 2008).

This means that the decision to apply fair value is also good for increasing investments, as investors feel reassured and can gain better understanding when a financial statement features fair value. Investors are of fundamental importance for every company of the world, and China is not an exception (Liu, 2010).

Moreover, the implementation of the use of fair value could also be a way to prevent the illegal manipulation of profits, such as Liu and Zhang (2006) suggest.

As a matter of fact, as expressed perfectly by Wang and Hu (2007), fair value is “not only relevant, but reasonably reliable”.

Furthermore, as in the first decade of 2000 the Chinese market was becoming “capitalistic”, the matter of attracting investors was becoming more and more important, especially as China could still be considered as a “developing Country”.

As a matter of fact, the development of a market economy in China has led the Country to adopt the fair value accounting method very fast.

As the scholar Wang I. brilliantly affirmed in his article in 2006, “the application of fair value not only hastens the substantive step for international convergence of accounting standards but also symbolizes the development of our market economy”.

As Wang I. (2006) pointed out, the adoption of the new accounting standards issued in 2006 clearly is a further step towards harmonization with IFRS, as these new standards have undeniable similarities with the international ones.

This is also the belief of Ge (2006), who sees the adoption of fair value as a signal that the globalization of accounting standards is becoming a reality, even in China.

Liu (2007) agrees with Ge (2006) and affirms that the accounting standards issued in 2006 provided a solid basis to help the harmonization of Chinese accounting standards with international ones. As a matter of fact, the use of this new set of accounting standards issued in 2006 helped reducing accounting costs and favored the development of the Chinese capital market (Zhou and Zhang, 2006).

The use of fair value accounting was therefore instrumental to enter the WTO and to prove to other Countries that China is a modern country that can adapt its financial accounting rules to international standards and that is able to apply all the most up-to-date financial instruments (Liu, 2010).

Even if the entry of China in the World Trade Organization was deemed to be controversial according to some scholars, as China appeared reluctant to disclose the real condition of its market economy, the introduction of fair value by the Chinese Ministry of Finance was able to reassure the international audience.

As a matter of fact, the adoption of fair value itself was considered as a proof that China was willing to take the path of standardization and that it was ready to embrace the new rules that would allow its accounting system to become more reliable and transparent.

The adoption of fair value and of new accounting standards is also reassuring for possible investors, who can understand annual reports easily and adopt the

Another reason in favor of the application of fair value is that this measurement method is adequate for the evaluation of the operational risk of companies. As the Chinese GDP scored a significant growth in these years, traditional historical cost measurement pattern does not seem appropriate anymore for the measurement of the profit of companies. (Liu, 2010)

There is a theory that might also let us envisage a political and also practical reason for the adoption of fair value accounting in China. The political reason is, undoubtedly, the need to take advantage from the opportunities that the globalized world offers, trying to adopt some globally-recognized accounting standards.

As argued by Arnold (2005), “the internationalization of accounting is a market-driven response to globalization, and shows that it results from the actions of politically constructed global institutions shaped by non-market actors via international trade agreements”.

This is why it appears natural that fair value accounting was introduced when China was intentioned to enter the WTO.

The reintroduction of fair value, as a matter of fact, was also a way for China to express its willingness to conform to international standards and a proof of its endeavor to develop its economy and to finally adopt a market economy (Liu, 2010).

It is therefore right to consider fair value not just a mere instrument for financial measurement, but also an effective political tool.

China was trying to make a new start and to have more international commercial transactions and the adoption of fair value was instrumental to do so.

Therefore, fair value evaluation is not just technically advanced and adequate to evaluate profit correctly, but also good for international commercial relations.

Undeniably, standardization has always favored financial exchanges between different Countries.

As a matter of fact, international firms feel safer since China has decided to apply fair value accounting, as now income statements appear to be clearer and easily understandable. This is why it can be affirmed that the convergence of the Chinese accounting standards has helped the development of the Chinese capital market, as Jiang and Zhang point out (2007).

As Wang H. affirms in 2007, the promulgation of the use of far value and of the new accounting standards will not just promote the capital market development in China, but also be beneficial to listed companies.

Summarizing, it can be affirmed that the main reasons why academics support the use of fair value are its technical strength, the importance of the globalization of accounting standards and the help that fair value may offer in the development of the Chinese economy and its capital market (Zhang and Andrew, 2016).

But academics are not the only supporters of the adoption of fair value.

As a matter of fact, Government representatives have also expressed a positive judgement towards the reintroduction of fair value.

Indeed, the minister of Finance in 2006, Jin Renqing, in his discourse at the International Standards Board, said that the use of fair value may be helpful to enhance the Chinese socialist market economy.

This is the exact thought of Chen Yugui, Secretary-General of the CICPA (the Chinese Institute of Certified Public Accountants) that affirms that the use of fair value can improve the quality of accounting information and increase the level of "openness" of the Chinese economy (Chen, 2006).

Lou Jiwei, the Vice-Minister of the Ministry of Finance and Chairman of the Chinese Accounting Standards Commission said in 2006, when issuing the new CAS, that the new standards (as long as fair value) would provide useful information to investors and harmonize the Chinese Standards with the International ones (Lou, 2006).

Even Dong Dasheng, the deputy auditor-general of the Chinese National Audit Office, affirmed in 2006 that these new accounting standards could be a solid theoretical foundation of the Chinese socialist market economy (Dong, 2006).

Fan Fuchun, the deputy chairman of the China Securities Regulatory Commission in 2006, also affirmed that these new standards and the use of fair value could be beneficial for the development of the market economy in China and could also help with the improvement of the accounting practices of Chinese companies and allow investors to have a wider knowledge of what occurs, financially speaking, in the firm (Fan, 2006).

Wang Jun, the Chinese Vice-Minister of Finance, affirms in 2007 that these new standards would converge with the IFRS as the latter are high-quality standards that are applied all over the world. He argues that the use of these kind of standards and of fair value would also help both local and overseas investors in making the right decision (Wang, 2007).

Also the China Banking Regulatory Commission wrote that the issuance of the new standards of 2006 was inevitable and urgent and that their adoption reflect the needs of the Chinese market-oriented economy (CBRC, 2007).

Predictably, the Chinese Government focused on political reasons for the reintroduction of fair value and for the issuance of the new accounting standards.

The main political reasons behind the reintroduction of fair value therefore appear to be the will to establish a market-oriented economic system, the need to support the "opening up" economic policy that China started to adopt under Deng Xiaoping and carried onto these days, the convenience of harmonizing national accounting standards with international ones, the preference of financial capital and the need to favor the strengthen of the Chinese capital market, which is sensitive to the type of information disclosed (Zhang and Andrew, 2016).

Of course, several news agencies have covered, with their articles, the adoption of far value with the issuance of new accounting standards for the year 2006.

The Xinhua News Agency is undoubtedly the one that provided the greatest number of pieces of information about the adoption of fair value and of the new accounting standards (Zhang and Andrew, 2016).

This news agency can be considered as the most authoritative and famous of China, and therefore its intervention on the matter needs to be regarded as significant in shaping the minds of the public opinion and as effective in conveying the ideas of the Chinese Government.

As a matter of fact, the Xinhua News Agency is the official agency of the Chinese Government and of the largest source of information and press conferences in China (Zhang and Andrew, 2016).

It is a member of the state council and reports directly to the CCP's Public Information Department (Zhang and Andrew, 2016).

It is interesting to see how the news are presented and what is the general feeling towards the adoption of fair value and of new standards that are substantially converged with International Accounting Standards in the years of the issuance and of the first adoption of the new standards (2006-2007).

The first intervention that can be found on the journal about the use of fair value occurs on the 15th February 2006, where, in the article signed by Chu, the reintroduction of fair value is considered as a "highlight spot" (Chu, 2006).

Then, a comment from the Vice-Minister of Finance, Wang Jun, is reported. In the article it is written that the introduction of new accounting standards was inevitable to respond to the globalization of capital markets (Mo,2006).

On 2nd June 2006 is edited a declaration from the China Securities Regulatory Commission that states that the adoption of new standards and the use of fair value are helpful to "clean financial markets" and attract new investors (Li,2006).

An interview to Graham Ward is reported on 3rd June 2006. Graham Ward is the president of the IFAC (International Federation of Accountants).He said that the adoption of new accounting standards in China would benefit the global economy and increase the reputation and the perceived reliability of the financial information provided by Chinese accountants (Li, 2006).

On 23rd June 2006 in an article is reported a comment by Wang Jun, the Chinese Vice-Minister of Finance. In the interview, he states that the adoption of these new accounting standards will increase the credibility of information disclosed of listed firms and help the development of Chinese capital market (Luan, 2006).

Han Jiming, economist at China international Capital Limited, affirmed on 7th November 2006, that the introduction of new accounting standards and of fair value could improve the competitiveness of Chinese firms (Han, 2006).

On 22nd of December is reported the declaration of a senior official at the SAAC (State-Owned Assets and Administration Commission) that states that the establishment of new standards is in line with the development of the Chinese market economy (Zhu, 2006).

In another declaration on 13th June 2007 McCreevy, senior European Commission official, who welcomes the convergence of the CAS with IFRS and encourages china to proceed with this harmonization process (Song, 2007).

In an article published on 4th July 2007 the adoption of new standards and of fair value is a further step towards the globalization of accounting standards (Wang Y., 2007).

On 12th July 2007 Xinhua also published an article where the chairman of the IASB David Tweedie said that Chinese capital market and financial reporting will appear more reliable to investors thanks to the new standards adopted (Gao, 2007).

On the same date another article published by Xinhua states that the European Commission praised the good results of China in trying to harmonize their national standards with international ones (Lin, 2007).

From the articles published by Xinhua it is evident that the main reason that justifies the adoption of fair value and of new accounting standards is the help that it may bring to the Chinese market economy, which needed to grow further.

In general, the adoption of new standards and of fair value is seen as positive as authoritative figures of accounting depict them as necessary tools for the progress of the Chinese economy and of the Chinese accounting system.

Fair value is therefore considered as a valuable and modern instrument to measure assets and liabilities and no opposition towards its reintroduction is expressed.

But even if the media did not convey a bad impression about the reintroduction of fair value, there were many scholars who did criticize its adoption from 2006.

As a matter of fact, there was a lot of controversy on the fact that fair value could be helpful for the Chinese economy and that it could be beneficial for the clarity of the Chinese accounting system.

In fact, the application of fair value in China has not been easy due to the presence of many obstacles.

Hence there are still many difficulties and limits that need to be overcome to grant an impeccable and correct use of fair value from Chinese firms.

As the phenomena that impede the correct application of fair value are not to underestimate, it seems necessary to illustrate all the limits that have been spotted by scholars and experts of accounting standards, in order to offer a throughout analysis of what could be the factors that could encourage the further use of fair value measurement.

2.2 The limits to the use of fair value in China

Even if fair value is now widely applied in the financial statements of Chinese firms as it is required by the Chinese accounting standards, many scholars have complained about the quality of financial statements and how fair value should be measured and used.

Even when the adoption of fair value in China was relatively recent and, of course, the newness of its application may have led to misunderstandings and wrong practice, it had been argued that newness was not the only reason that leads scholars to feel skeptical about the use of fair value accounting.

At that time, there seemed to be different problems and limits that could prevent accountants to use fair value in the right way.

This is the reason why many experts have expressed their concern about the use of fair value in China, even if their number seems to be lower than that of the "supporters" of the use of fair value in Chinese accounting standards.

Zhang and Andrew (2016), in their analysis of discourse concerning fair value in the time period 2006-2010, have noticed that all the opinions of academics against the reintroduction of fair value in China could be found in journals that were ranked on low categories (B or C) by the Academics Degrees Committee of State Council in 2008.

This means that the journals that were presenting this "unpopular" opinion were generally considered untrustworthy and did not had the intellectual merit of the journals that had a positive opinion about the reintroduction of fair value.

Zhang and Andrew (2016) also noticed that there were some PhD thesis which discussed about the potential positive and negative effects that the application of fair value could have on financial statements.

The PhD thesis considered, however, were not directly accessible to the public. Hence, Zhang and Andrew have remarked that there was a difference between the public discourse, intended to broadcast a positive image of fair value, and the "private" discourse, that was only between academics.

It can be therefore said that, for what concerns the discussion about fair value, Chinese politics as had a major role in forging the minds of the public opinion in favor of the use of fair value.

As a matter of fact, hardly any alternative discourse about the limits of the use of fair value is available, and that may be explained, as Zhang and Andrew (2016) affirm, as media in China are controlled by the CCP.

The majority of the alternative discourse between 2006 and 2010 that Zhang and Andrew have found, by the way, is based on the limits to the application of fair value in China, not on the application of fair value in general or on the intrinsic characteristics of fair value.

In fact, the majority of the discourse that depicts the limits of fair value between 2006 and 2010 deals with the immature market conditions in China and the readiness of China for the reintroduction of fair value (Zhang and Andrew, 2016).

For instance, Humphreys (2009) says that China lacks active markets that are essential to the use of fair value.

Also Luo wrote an article in 2006 which focused on the Chinese banking industry and pointed out the fact that it was extremely difficult to obtain a fair value due to the market conditions of China at the time.

Li (2008) agreed with Luo (2006) and added that the fact that China was transitioning from a socialist economy to a market economy made it harder to apply fair value, as the latter, in order to work properly, needs the existence of some institutional structures that can only be found in market economies.

As the objections to the use of fair value in Chinese accounting were made concerning the previous regulation of 2006 and were made a long time ago, it is necessary to find out if even with the new regulation accountants still have trouble with the use of fair value.

The study by Hong Yang, Clark, Wu and Farley published by the “Australian Accounting Review” in 2018 is extremely useful to this scope. Its main part is the interview to 33 senior financial executives of Chinese listed companies in 2014.

Financial executives are required to answer if they agree, do not agree, have no opinion or deem impossible to answer to some statements that are present in a questionnaire designed for this study about the degree of convergence between CAS and IFRS, the difference and the choice between fair value and historical cost accounting and the struggle of the harmonization between Chinese Accounting Standards and International Accounting Standards.

The second section is undoubtedly interesting as accountants also express their thoughts about the usefulness of fair value accounting in China.

These professionals are experts of accounting, and therefore can be considered as a reliable and experienced source that could help in the analysis of why the adoption of fair value in China appears to be so difficult (Yang, Clark, Wu and Farley, 2018).

There are two tables presented in this article that are relevant for this study.

In the first table are listed some statements that require accountants to declare if they have any preference between the use of historical cost accounting and fair value accounting when producing financial reports.

Twenty-six of the accountants interviewed agreed that “all assets and liabilities should be reported at historical cost, with fair value information presented in the notes”, just two accountants had no specific opinion on the matter, five of them disagreed and one said that it was impossible to say.

Conversely, only nine accountants agreed to the affirmation that “all assets and liabilities should be reported at fair value, with historical cost information presented in the notes”, while fifteen disagreed, eight did not have a definite opinion and one affirmed that it was impossible to say.

The response to the first two statements concerning fair value shows that accountants considerably prefer to use historical cost rather than fair value (Yang, Clark, Wu and Farley, 2018).

The answers to statement 3, “enterprises should be permitted to choose among alternative measurement concepts for different classes of assets and liabilities” underlines the fact that Chinese accountants generally prefer a regulated accounting practice, as twenty-three disagreed, three did not have an opinion about it and just seven agreed.

Twenty-one respondents agreed with statement 4, that affirmed that the “implementation of fair value accounting is a fundamental change in China’s accounting practice”, while only one person disagreed, six people had no opinion on the matter and five people stated that it was impossible to say.

From the answers to statement number 4 it is evident how the implementation of fair value accounting is perceived to be important according to accounting professionals, and this is a crucial information for our analysis, as the year is 2014, just when CAS 39 has been issued, helping the implementation of fair value measurement.

Even if, according to the answers to previous statements, accountants appear to be against the use of fair value, they admit that its implementation is of major importance for the Chinese Accounting System (Yang, Clark, Wu and Farley, 2018).

The fifth statement then appears to be particularly interesting, as it states that “implementation of fair value accounting is incompatible to the unique Chinese institutional environment where the ‘active market’ is rarely available” (Yang, Clark, Wu and Farley, 2018). From the answers to the questionnaire, it emerges that seventeen accountants agree with the statement, four do not have any opinion about it, eleven disagree and one thinks that it is impossible to give an answer.

This means that accounting professionals still think that the use of fair value is not adequate to the Chinese economic system, as fair value is indicated for active market and the latter is deemed to be hard to find in China, as the volume of transactions, compared to other markets, is still limited (Yang, Clark, Wu and Farley, 2018).

The second table is about the perceived usefulness of fair value according to accountants.

Statement 1 asks whether the respondents' firms use fair value to measure assets or liabilities, and only seven firms over thirty-three uses it.

To answer to other statements concerning the usefulness of fair value, accountants have to use a scale from 1 to 5, where 1 corresponds to "very useful" and 5 means "not useful at all".

The second statement asks accounting experts to rate the usefulness of fair value (compared to historical cost) to enhance the quality of accounting information in Chinese companies

Seven accountants chose 1 as their answer, eleven accountants chose 2, two accountants chose 3, six accountants chose 4, three accountants chose 5 and six accountants said that it was impossible to answer.

Therefore the results show that, even if accounting experts believe that the Chinese market is not suitable for the use of fair value, the technical strength of fair value is widely recognized by experts (Yang, Clark, Wu and Farley, 2018).

In statement 3 is written that "fair value accounting provides Chinese companies with more opportunities than historical cost accounting for earnings management". Nine accounting experts marked 1, fifteen accounting experts marked 2, six accounting experts marked 3 and three accounting experts marked 4.

These answers clearly testify that the majority of the accountants think that companies that use fair value have more opportunities compared to those that use historical cost accounting for earnings management. This is still a signal that fair value is considered highly reliable.

Statement 4 states that “fair value accounting has improved the comparison and consistency of Chinese enterprises’ financial reports with international enterprises” (Yang, Clark, Wu and Farley, 2018). In this case, seven accountants answered 1, seventeen accountants answered 2, five accountants answered 3, one accountant answered 4 and three accountants declared that or them it was impossible to answer.

Hence, it is evident that the great majority of accountants believe that the use of fair value makes the comparison between financial reports of Chinese enterprises and financial reports of international enterprises easily feasible. This seems evident as the use of fair value is rooted into international accounting standards and is therefore easier to compare two items or two liabilities that are both measured at fair value (Yang, Clark, Wu and Farley, 2018).

In statement 5 is written that “fair value accounting has promoted transparency and credibility of Chinese companies’ financial reports” (Yang, Clark, Wu and Farley, 2018). Six accountants marked 1, seven accountants marked 2, nine accountants marked 3, eight accountants marked 4, one accountant marked 5 and three accountants declared that they were not able to give an answer.

The answers provided by accountants to statement number 5 are particularly interesting as the majority of them has given “neutral” or negative answers. This is understandable if it is taken into account the fact that the use of fair value was abolished in China between 2001 and 2006 because of the easy manipulation of profits. In this case, accountants recognize the fact that the use of fair value may also be a weapon to produce false information.

Therefore, bearing in mind the risk that some companies could provide wrong information and could manipulate profits, accountants appear to be cautious and skeptical about the fact that fair value has improved the transparency of financial reports of Chinese companies (Yang, Clark, Wu and Farley, 2018).

Hence, from this article there are some truths that can be evinced. The first one is that, although accountants bear in mind and admit that fair value is of undeniable technical superiority, they strongly believe that it is useless if applied in China, as the Chinese market cannot be properly defined as “active”.

Consequently, this article underlines the fact that Chinese accountants substantially agrees with what expressed by Humphreys in 2009 and by Luo in 2006 about the uselessness of fair value in China due to the characteristics of the Chinese market.

Moreover, from what is written in the article, it is evident that Chinese accountants believe that the implementation of laws is necessary in order to apply fair value correctly, enhance its disclosure and avoid its use for illegal scopes.

In fact, many scholars believe that the main factor that negatively affected the use of fair value was the incomplete regulation. As a matter of fact, as underlined in the previous chapter, regulation concerning fair value in China before the issuance of CAS 39 appeared to be lacking some valuable explanations and uniformity (Liu, 2010).

Before the issuance of CAS 39 in 2014, as a matter of fact, there was not a unitary and clear regulation that could deal only with fair value and could present a unique and clear regulation, which is fundamental for the correct use of fair value measurement.

Before 2014, the regulation did not seem to be clear about what should be done in order to apply fair value properly and to carry it out in the best way possible.

Even in the article by Liu published on the "International Journal of Business and Management" in September 2010 is said that a new theoretical system had to be established, as there is need for a unique set of rules and regulation that could be consulted by professional accountants whenever they have doubts about how to apply fair value.

It is understandable that, until the regulation was implemented, uncertainty about the use of fair value persisted and created issues. As a matter of fact, that set of standards did not contain clear provisions on how to use fair value and how to apply a correct valuation method. The use of fair value was allowed and required, but not explained. There was the need for a unitary standard that could provide all the essential information on how to apply fair value and how to process and disclose information (Liu X., Yuan J., 2013).

It could be interesting to verify if the introduction of CAS 39 actually helped solving certain problems related to the application of fair value in China.

As a matter of fact, regulation is fundamental to provide guidance to accountants that struggle to apply first value.

From the analysis carried out by some scholars, accountants have troubles applying fair value for two main reasons other than the unsuitability of the Chinese market: for the technical complexity of the use of fair value and for their lack of education (Liu,2010) (Zhang and Andrew, 2016).

The application of fair value measurement itself is quite complex and requires a certain market environment that, as emerged from previous analysis, was indeed distant form the reality of the Chinese one.

From the articles analyzed by Zhang and Andrew (2016), the mere technical aspect of the application of fair value are not discussed by the Chinese audience, unlike what happened in Western Countries. There is no debate on how to carry out the provisions of CAS and there is no discourse on the difficulties in the approach of the theory of fair value.

This is why Zhang and Andrew (2016) present the evidence that the articles published in China from 2006 to 2010 were edited with the scope to support the choice of the Government on the reintroduction of FVA, but that they were far from analyzing the difficulties of using fair value and the technology that this requires as this would be seen as critical towards the Governmental provisions. There is also the possibility that the discourse concerning the limits of fair value has been censored.

It seems that all the studies found about the application of fair value, as well as the discourse from the Chinese Government, were fundamentally market-oriented and do not mention the fact that fair value accounting is extremely technical and that it requires a deep knowledge of accounting (Zhang and Andrew, 2016).

In order to ensure the correct use of fair value accounting the knowledge of basic accounting theory should be impeccable and there should be no doubts concerning the nature of fair value itself and the theories and methods linked to its use (Liu,2010).

The improvement of theoretical studies should also help accountants applying fair value. As underlined by various studies conducted by Xia (2006), Liu (2009), Zhang (2006), Su (2007), Dai (2007), Wang D. (2007) Xu (2007) and Liu (2010), the reason for the difficulty of accountants to estimate assets and liabilities at fair value could be the low quality of accounting education received and the need for better training.

The lack of education of Chinese accountants is another great limit to the correct use of fair value measurement, as the professional level of accountants is extremely crucial.

This matter is extremely serious, as professionals should know very well what are the requests of Chinese accounting standards when it comes to apply fair value measurement.

Accountants should be familiar with the methods and the procedures that are to be applied and they must have a solid knowledge of the regulation. In order to do so, accountants need to be trained to recognize valuable information and to look up to the performance of other companies, and not to focus just on their company (Liu,2010).

According to Liu (2010), also educating accountants about professional ethic and integrity is necessary in order to avoid the past troubles with the fraudulent use of fair value measurement.

As a matter of fact, in 2001 the use of fair value was abolished by the Ministry of Finance, as it could was used to manipulate profits and provide false information to stakeholders.

This has deeply influenced also the consideration of accountants concerning fair value and may have contributed to the creation of a negative prejudice.

As it emerges from the study carried out by Yang, Clark, Wu and Farley published by the Australian Accounting Review in 2018, the majority of the accountants that were interviewed did not believe that the use of fair value could enhance the reliability of Chinese companies' financial reports.

This opinion may result from the knowledge of what happened in the past and may be a limit for the application of fair value in the present.

As a matter of fact, in the same study accountants declared that they prefer to use historical cost measurement rather than fair value measurement.

This could be influenced, as pointed out before, both by the negative prejudice against fair value and by the lack of knowledge on how to use it.

Another aspect that could increase the negative prejudice against fair value is the fact that it has been wrongly believed that the use of fair value measurement could be one of the causes of the global financial crisis that started in 2007.

Zhang and Andrew (2016) found ten articles published between 2007 and 2010 that analyzed the correlation between the use of fair value in the West and the occurrence of the crisis.

Although the possible relationship between the use of FVA and the financial crisis in the West has been underlined by some scholars (Arnold,2009) (Huang,2009) (Laux and Leutz, 2009) (Liu S., 2009) (Yu,2009), the majority of Chinese scholars seem to believe that the use of fair value did not cause the global crisis.

For instance, Liu S. wrote in 2009 that fair value cannot be the cause of the crisis and that it is fundamental to improve the fair value valuation system. Moreover, Pan (2009) suggested that the issues provoked by the use of fair value can be prevented by enhancing the regulation, providing operational guidelines and "promoting asset appraisal for financial reporting purposes" (Pan, 2009).

Liu S. (2009), Chen and Lu (2009), Zhi and Tong (2010) had similar suggestions, which implied a tighter control of the Chinese Government over the use of fair value in Chinese companies.

There are, nevertheless, some intrinsic characteristics of fair value that can cause trouble when applying it and can discourage its use.

Nowadays, there are much more articles written by Chinese scholars that point out at all the technical problems that can emerge when using fair value measurement.

For instance, as pointed out by Zhang Y. (2018), a big problem that is undeniably linked to the use of fair value is that it causes large fluctuations in the value of measured assets.

As a matter of fact, when the value of the assets in an enterprise is not estimated using historical cost, but using fair value, the value fluctuation of the asset will be relatively large, as the latter is greatly affected by the market environment.

When the economic development is relatively slow and the market turnover is low, the value of the asset measured at fair value may decrease significantly. In this case, the "actual" value of the asset is underestimated, and as a result, assets would be processed at a low price, thereby reducing the capital and the financing capacity of the enterprise.

On the contrary, if the national economy develops rapidly, the fair value is affected by the market economy, which will cause the company's original assets to increase significantly, and at the same time cause the company's profit to be higher than the “actual” level (Zhang Y., 2018).

This means that the value of the assets is strictly linked to the performance of the market, and, if the latter is at loss, the assets may be dramatically devaluated and cause great troubles to companies.

Therefore, it can be affirmed that the pricing of assets at fair value is strictly linked to the overall performance of the national and global economy.

This leads to another phenomenon that can be considered as a limit to the adoption of fair value, that can be observed when using fair value and that has been deeply studied in the recent years by scholars: the procyclicality of fair value (Chen, 2018).

As affirmed before, prices of assets and liabilities measured at fair value are tied to the general performance of the economy.

Therefore, as the economy undergoes up and downs and has a “cyclical” condition, if fair value is evaluated using an imprecise methodology, assets and liabilities priced at fair value will undoubtedly follow the different cycles of the economy, being tightly connected to the market performance (Chen,2018).

This means that, when the economy is struggling, the price of assets and liabilities measured at fair value will be consequently lower, determining a loss for the company, while vice versa, if the economy is experiencing a positive moment, the price of assets and liabilities measured at fair value would be consequently higher, determining a profit for the company (Chen,2018).

The high level of procyclicality of fair value is mostly determined by weakness in the methodology used to calculate it and the existing regulation should limit the procyclicality of fair value as to avoid assets to undergo a terrible devaluation or a great increase in their value only due to the change of market conditions (Chen, 2018).

Moreover, another trouble related to the use of fair value is that it can be also used to manipulate profits by trying to maximize the value of the assets of the company. It is easy to understand that, if the proportion of assets measured by fair value in a company is relatively high, it will have a relatively large impact on the profit of the company (Zhang L., 2018).

If the industry in which the enterprise is located is unstable, the value of the assets measured by fair value will change, and the profit of the enterprise will also change, becoming either higher or lower. When the current performance pressure of the company's management is low and it is expected that the current period will be difficult to complete, companies may be tempted to manipulate the assets measured by fair value to adjust the profit of the company, which will cause troubles and misunderstandings for investors, as the information provided is false and may lead to misjudgment and wrong decision-making (Zhang L., 2018).

This may happen because the management of a company usually has a great say in the choices of fair value for the measurement of the assets of the company, as the theory of fair value is currently in a stage of continuous development and improvement. Of course, the measurement of fair value is also affected by the professional qualities of accountants and by the techniques used to evaluate assets at fair value (Zhang L., 2018).

This is why the introduction of new regulation appears to be fundamental to guide the company's operation and to prevent management personnel to make false fair value changes and unfairly reflect corporate assets, resulting in inconsistent corporate profits (Zhang L., 2018).

Another technical default of fair value measurement is that its actual operability is not strong and that the majority of Chinese companies seem to use the third level of fair value measurement when evaluating assets and liabilities (Zhang L., 2018).

Considering the definition of fair value contained in CAS 39, it can be observed that the measurement requirements of fair value mirror the transaction value of assets and liabilities in the actual market in real time.

As also explained in CAS 39, fair value measurement has three levels according to different market conditions.

The first level of fair value is based on the measurement of a transaction price of an asset or a liability between two distinct parties in the market condition on the day the measurement occurs. Of course, these items that are measured at first level are those which usually undergo frequent transactions and have a well-defined fair value price, such as stocks, funds, derivatives and bonds. Level 1 of fair value is generally considered to be a reasonable way to price assets, as it is based on factual transactions that occur in the market and on the quoted prices for identical assets or liabilities that are undergoing a transaction in active and visible market (Zhang L., 2018) (CAS 39, 2014).

The second level of fair value is based on the transaction price of similar assets and liabilities that undergo similar transactions. In case there is no real transaction and there is no similar transaction, the accounting standards require the use of pre-provided valuation techniques to estimate assets and determine their prices (Zhang L., 2018).

The most accurate and reasonable method would be to determine the price of the asset or liability through market transactions, but since the Chinese market is not active enough, many companies would use the third level of fair value to measure assets and liabilities, as it employs unobservable inputs. The fair value of an asset calculated using this level of fair value may be significantly different from the true value of the asset, as it is based on unobservable inputs. This is absolutely contrary to the original purpose of fair value, which is giving a reliable pricing of assets and liabilities measured (Zhang, 2018) (CAS 39, 2014).

Unfortunately, a great of Chinese firms use the third level fair value measurement, which is the most prone to manipulation. This fact does not mean that companies have as their main objective the illegal manipulation of profits and the provision of false information to stakeholders. As a matter of fact, the legitimacy of the use of this method lies in the market where the enterprise operates. It is evident that if the company operates in a market that is not active and does not deal with frequent transactions of financial instruments the use of the third level of fair value measurement is justifiable (Zhang L.,2018).

Of course, the use of the third level fair value measurement may be an instrument to produce false information, as the trading volume is only estimated, as it concerns an estimated or virtual transaction (Yang,Liu and Li, 2019).

Nevertheless, according to Yang Kezhi Liu Lu and Li Jiuwei (2019) the fraudulent use of all the kinds of fair value is limited as in CAS 39 is introduced the concept of "main market". As a matter of fact, the standard stipulates that fair value should assume that transactions are conducted in the main or market. The latter is determined judging from where the largest transaction volume occurs and where there is the highest degree of transaction activity. In this case, it is not easy for companies to manipulate the fair value of an asset or a liability.

But what happens when it is impossible to determine the main market?

In this case, according to CAS 39, companies are allowed to use the most favorable market to price its assets and liabilities. As it is underlined by Yang, Liu and Li (2019) this would maximize the economic benefits that the company has using fair value.

But then when using the “most favorable market” to price assets and liabilities, there could be some discrepancy between the “real” value of the asset or liability considered and the “fair value” of the asset or liability considered.

Yi Wanwei (2019) disagrees with Yang, Liu and Li. As a matter of fact, he points out that, due to the uniqueness of the Chinese market, in many cases, related assets or liabilities are difficult to find in the main markets of the same type of assets or liabilities. He believes that even stating the most favorable market is extremely difficult to companies as the information concerning other markets are difficult to find.

Another limit to the wider use of fair value in China is the fact that many scholars believe that the implementation cost and the final benefit are inconsistent (Zhang L.,2018).

As Zhang L. (2018) affirms, companies need to estimate the assets measured by the fair value at least annually when publishing their financial information. At this time, a professional valuation method will be used to determine the correctness of the valuation price, and the corresponding increase of the cost of the enterprise. The adjustment of the financial statements by the financial personnel based on the estimated fair value will cause the consumption of corporate human resources (Zhang L., 2018).

The accuracy of the fair value estimation will also be affected by the professional skills of the accounting staff. Therefore, the enterprise must regularly conduct training for employees, which will also increase the cost of the enterprise unrelated to the operation. On the whole, compared with other measurement attributes required by accounting standards, fair value measurement attributes require more extra costs for the enterprise, and the benefits it generates depend on the accuracy of the tools and the quality of the personnel. Therefore, the use of fair value instead of historical cost method and other “traditional” measurement methods implies also higher expenses for the company (Zhang L., 2018).

Many scholars have studied the relationship between the use of fair value and the cost of audit that has to be endorsed by enterprises.

The study by Tang Jiawei and Liu Yuyu (2017) is particularly interesting in this case, as it underlines the impact of fair value measurement characteristics on audit costs taking into account the financial reports of an undisclosed number of China's A-share listed companies in the Shanghai and the Shenzhen stock exchange from 2007 to 2014 and further examines the regulatory effect of auditor industry expertise on the relationship between the two.

The results of the study show that listed companies which use fair value measurement incur into an increase audit fees that they need to pay, and that audit fees increase with the deepening of fair value measurement and the expansion of scope (Tang and Liu, 2017).

Tang and Liu also found out that when the client's negotiation ability is high, the increase in audit costs caused by fair value can be reduced (Tang and Liu, 2017).

It has also been noticed by the two scholars that when fair value measurement of assets increase or liabilities decrease, auditors will charge higher audit fees (Tang and Liu, 2017).

As underlined by Tang and Liu (2017), the fact that the measurement of an asset or a liability is expensive at fair value is because the use of fair value is linked to a higher audit risk and a higher audit workload.

Tang and Liu (2017) believe that there are currently two views on the relationship of audit industry expertise and audit costs in the Chinese market. One view is that professional firms have specialized talents for auditing listed companies, and that the formation of specialization requires a large amount of human resources, so higher audit fees will be charged to form a premium for industry expertise. Another view is that there is only a brand premium in the current audit market, and no premium for industry expertise.

For instance, Chinese scholars such Geng and Zhu (2008) found that the introduction of fair value measurement attributes increased the difficulty of auditing. As a matter of fact, from their paper it emerged that when measuring an asset or a liability at fair value auditors need to invest more time and effort to collect evidence, and at the same time increase the cost of communication with the audited unit.

Tang and Liu (2017) also pointed out that the use of fair value measurement makes it necessary for auditors to rely on increased audit workload to control risks. Since they bear inevitable audit risks, they will inevitably receive higher audit rewards. It can be seen that in the relationship between fair value and audit costs, domestic and foreign scholars believe that the introduction of fair value measurement will increase audit costs, and mainly from the perspective of audit risk and audit workload.

The paper written by Tang and Liu can therefore undoubtedly help to better understand the mechanism that regulates the pricing strategy of Chinese accounting firms, as it provides an empirical study that underlines the correlation between audit cost and use of fair value. The two scholars, anyway, exhort auditing companies to reasonably perform the audit pricing (Tang and Liu, 2017).

It has also been observed from scholars that there is a worrying relationship between profits and losses resulting from changes in fair value and levels of executive compensation. This means that the companies considered either have misunderstood how to use fair value or use profit deriving from changes in fair value to increase the earnings of their managers. The second supposition is the most probable, as one of the reasons for the abolishment of fair value in 2001 was that many enterprises used to transfer gains from fair value from equity to their managers or majority shareholders, so that the latter could retain these earnings.

In the study conducted by Shao, Chen and Mao in 2012 and published on the "China Journal of Accounting Research", this phenomenon has been deeply analyzed.

Starting from 2007, profit and losses due to changes in fair value became an item of the income statement of Chinese companies (Shao, Chen and Mao, 2012).

The optimal contracting theory states that, when considering compensation contracts, executive remuneration should be linked to a positive company performance.

Sometimes, this is not the case. For instance, the Information Centre of the Guangdong Province, state-owned enterprises pay high salaries to managers even if the company's performance are at loss (Feng,2008).

Curious about these findings, Shao, Chen and Mao analyzed how profit or losses due to changes in fair value are linked to managerial compensation analyzing the relationship between the changes of fair value and the level of executive compensation in a sample of Chinese companies listed as A-shares in the Shanghai and Shenzhen Stock Exchange between 2007 and 2009 (Shao, Chen and Mao, 2012).

From their study it resulted that the increase of compensation due to profit resulting from the change of fair value is higher than the reduction of compensation resulting from changes in fair value (Shao, Chen and Mao, 2012).

As the managerial power increases, also the asymmetry of the relation between profit and loss resulted from changes in fair value and the executive compensation increases. Namely, the more the manager is powerful and the more the profit from the changes of far value will result into an increase of managerial compensation, while, conversely, the more the manager is powerful and the less the losses from the changes of fair value will result in a reduction of managerial compensation (Shao, Chen and Mao, 2012).

Also Hou and Jin (2010) studied the sensibility of changes of fair value over executive compensation, and they found out that both profit and losses derived from changes of fair value tend to increase the compensation of managers.

Zhou, Xin and Zhang (2010) argued that this correlation is evident when considering CFOs, while Xu and Zhang (2010) believe that there is an asymmetrical relation between changes of fair value and executive earnings in listed A-shares Chinese Companies and that "irrational incentives to profit from positive changes of fair value contrast with motivations to avoid punishment for losses from changes of fair value" (Shao, Chen and Mao, 2012).

Zhang L. (2011) also noticed the correlation between changes of fair value measurement and executive compensation. As a matter of fact, they have found out that profit and losses from fair value presented in the income statement are often directly credited into capital surplus by Chinese listed companies. Therefore, in case of profit from fair value, this will be positively related to the increase of the executive compensation, while in case of loss, this will be irrelevant to the executive compensation.

This is a clear example of how the use of fair value may help managers to increase their earnings.

This is also a relevant limit to the use of fair value, as it may help managers to increase executive compensation with money that they are not really entitled to.

The only instrument to limit this despicable behavior, according to Shao, Chen and Mao (2012), is the increase of the regulation concerning the use of fair value and the change of the structure of compensation contracts in China.

Only tightening the control of institutions and the stricter enforcement of the law may avoid these situations.

This is also what the expert accountant Zhang (2019) sustains. He claims that the reward mechanism of managers need to undergo a reform. The scholar claims that fair value measurement could be easily manipulated in the past due to the relatively weak information system that is present in China and the incomplete regulation. Therefore, he urges the Chinese Government to use the "invisible hand" to strengthen the supervision on the disclosure of fair value information.

As a matter of fact he believes that the company's own self-discipline cannot be trusted and that the Government should tighten the control over companies' financial statements, which, according to him, suffer from a very low level of disclosure (Zhang, 2019).

Li and Xie (2019) complained about the fat that the absolute amount of executive compensation in the financial industry is still lower than that in developed countries. This affirmation, anyway, must not be used as a way to justify the use of fair value to improve managerial compensation.

From the limits analyzed it appears evident that the greatest obstacles to the right application of fair value in China are the scarce number of Chinese theoretical studies about fair value, the difficulty to use fair value in the Chinese market, the insufficient education of accountants, the cost of auditing linked to the use of fair value, the skepticism of accountants and scholars towards the use of fair value, the frequent use of fair value to maximize profit illegally and the loose control of Chinese authorities over the actions of Chinese companies.

Scholars have expressed different concerns and opinions about the use of fair value, but it appears evident, when reading their papers, that they believe that the issuance of CAS

39 has substantially helped in the improvement of the use of fair value in China and that there are chances to overcome the current limits.

Therefore, it appears now necessary to move forward in this analysis and to see what are the suggestions of scholars and accountants to further improve the use of fair value in China.

2.3 How to overcome the limits linked to the use of fair value in China

In order to overcome problems linked to the wrong use of fair value, the most frequent suggestion of scholars is to carry out as many new theoretical studies as possible not just about fair value, but also about basic accounting theory. As a matter of fact, theoretical studies are extremely important to deepen the knowledge towards fair value and its use. It has been observed that the number of Chinese studies on fair value is significantly lower than the number of Western studies about fair value. For instance, in Western Countries, there has been a long debate concerning the concept of "value relevance", while in China this discourse has never been approached (Zhang and Andrew, 2016).

The more knowledge and information about fair value is available and the more it will be possible to find solution to problems linked with the wrong use of fair value and the more it will be possible to intervene against its illegal use (Xiao and Hu, 2017).

It is especially important to keep studying how fair value works and to keep up with new valuation methods. As a matter of fact, the characteristics of assets and liabilities measured at fair value may change with time, and consequently there should be a constant research on which new valuation methods that could be more appropriate to measure new instruments. Valuation patterns are especially important to help companies when evaluating an asset or a liability at fair value, and therefore this discourse needs to be deepened as Liu (2010) sustained when comparing the flat money/fair value pattern and the constant purchasing power/fair value pattern.

The study of the evaluation technologies that other countries use could be also helpful to China, according to scholars. As a matter of fact, new evaluation technologies employed elsewhere could be also applicable in China, despite the different environment. Scholars seem to believe that international evaluation technologies could be helpful when it comes to apply more adequate valuation instruments (Liu,2010) (Liu and Yuan, 2013).

According to scholars and accountants, also the external environment needs to be apt for the application of fair value (Zhang Y., 2018).

As it can be observed from the paper by Yang, Clark, Wu and Fraley in 2018, it seems that accountants think that the use of fair value in China is extremely difficult and, sometimes, not adequate to measure assets and liabilities as the conditions of the Chinese market are unique and very far from the ones of the active markets that can be found in the West.

Far from being a critique to the Chinese socialist market economy, this suggestion must be taken as an encouragement to find new ways to apply fair value in the specific environment of the Chinese market, which is extremely peculiar and has its own marked characteristics. For instance, as written by Zhang Y. (2018), sometimes it is difficult to find information related to the pricing of assets and liabilities in the Chinese market. Therefore, as Liu suggested in 2010, the creation of a Chinese information-oriented market should be promoted.

Chen (2018) claims that, in order to improve the quality of accounting information when using fair value measurement, enhancing the market economic system is the key. He believes that, first of all, China should constantly improve the socialist market economic system and allocating resources to favor the growth of the market. Increasing the sensitivity of the market to resource adjustment, controlling industry monopolies and distributing the resources between different industries in a fair competition environment are also key points that can help the development of the Chinese market.

Chen (2018) thinks that a deep reform of the investment system is needed, as well as better regulation. The scholar also urges to boost the capacity of the Chinse financial system, break the regional blockade and benefit barriers, and form a unified, transparent, orderly, and standardized market environment, so that the application of fair value measurement can be transparent, and the reliability of fair value measurement can be ensured. Then he believes that it is fundamental for the Chinese Government to use policy support to promote the development of intermediary service agencies. At the same time, in view of the current problem of low independence and integrity of China's asset assessment agencies, on the one hand, the Government should strengthen the supervision and management of industry associations, while on the other hand, it should cultivate a fair market competition environment, and provide intermediary service agencies.

Chen (2018) thinks that it I necessary to provide fair conditions of commercial competition and take into account the problem of accounting information distortion caused by information asymmetry to determine a relatively fair market price.

Even Yi (2019) proposes some strategies for improving the application of the fair value measurement model in the Chinese market. He believes that, in order to make the fair value measurement model better serve the social and economic development, it is necessary to create a good application environment for fair value. As many companies had difficulties in applying fair value, Yi (2019) believes that the only possible choice is to build a multi-level developed capital market. He is convinced that the price of assets or liabilities traded by both parties in an open and transparent market-oriented effective market should be easier to find for companies. Yi (2019) sustains that a capital market is more in line with the connotation of fair value and provides a market basis for the acquisition and judgment of fair value. The capital market mentioned by Yi (2019) does not simply refer to the securities market, but also includes financial formats such as leasing, insurance, pawns, auction houses, and Internet finance. The transaction of an asset or liability, in this case, is characterized by the presence of multiple transaction channels and by the presence of qualified participants that are able and willing to create a good application environment for the fair value measurement model.

It is evident that also markets are constantly evolving and new assets and debts are created, therefore there should be also an evolution in the evaluation technology. These new assets and debts require complex valuation technology in order to be fairly evaluated. This is why it is in the best interests of professionals to focus on the study of fair value. (Liu,2010)

Also according to Yi (2019) the standard operating system and the regulation should be constantly improved. He believes that, at present, China 's fair value standards have become self-contained and have, overall, rich connotations. He argues that the entire process of fair value measurement is clear, while it should be admitted that there are certain deficiencies in operability. Yi (2019) thinks that this is mainly because certain assumptions and professional judgments are involved in the application process, and these contents are difficult to specify and quantify. To this end, there is need to constantly improve the content of the fair value standard operating system and specify the details of fair value application in the most detailed way possible. He believes that it should be considered to publish input value operation guidelines or specifications for different types or different industries for users' reference.

In order to overcome the troubles related to the difficulty of the use of fair value measurement and about the audit cost that companies have to sustain, Zhang L. (2018) writes that establishing a good cooperative relationship with a professional evaluation agency is a matter of major importance to Chinese companies. The relatively big problem in the implementation of fair value is that the operation is difficult, the actual application is not strong, and the implementation cost is not equal to the final gain. Therefore, the company should establish a better cooperative relationship with professional institutions, so as to control the cost of the implementation process as much as possible and to increase its profitability.

Without any doubt, companies need to trust professional organizations, even if it is evident that the management will always know the situation of the company better than the experts of the professional organization. At the same time, companies need to provide professional institutions with comprehensive asset information and accurate assessments. (Zhang L.,2018)

A good cooperative relationship with accounting firms is also a valid instrument to reduce the procyclicality caused by fair value. As a matter of fact, in order to alleviate the effect of procyclicality caused by fair value, the uniform pricing service could be used to obtain the fair value of related financial products. Uniform pricing is a quote service that is provided by independent brokers and consultants for the complex and illiquid financial instrument. The price is based on the selling price of related financial instrument. However, if the value of the financial instruments are too scattered or the banks believe the value is not fully reflected in the market, there is the risk that the result of uniform pricing may not be correct. So when using the uniform pricing method, there is the need to assess the authenticity and authority of brokers and consulting agency’s price level, and to ensure whether the pricing mechanism of quote price that they provided is in line with fair value measurement or not. Moreover, also the issuance of new related regulation may help in reducing procyclicality (Chen,2018).

Another important point that should be covered is the control of companies. The fact that some companies in the last years of 1990s have used fair value accounting methods in order to manipulate their profit is unacceptable, and therefore there should be a higher control over enterprises to avoid any critical situation. It is moreover necessary that authorities do not stop controlling strictly companies in order to prevent the manipulation of profit and to correct the mistakes done when evaluating an asset or a liability at fair value (Liu,2010).

As sustained by a great number of scholars (Liu,2010) (Zhang, 2018) (Yang, Clark, Wu and Farley 2018) the major weapon against fraud is the control of the competent authority and the issuance of norms that could tighten and regulate the supervision in the use of fair value measurement.

Companies must be urged to use fair value correctly, to follow an impeccable operational behavior and to produce reliable accounting information. In order to do so, regulation covers a crucial role, as sometimes coercive measures are fundamental to ensure that companies respect the law. Not just new laws must be approved, but also the existing regulation should be implemented, in order to create a legal environment that could discourage all kind of illegal behavior (Liu,2010) (Zhang L.,2018).

New regulation and control by authorities are fundamental instruments that can help avoiding the illegal use of fair value. According to Yi (2019), a valuable instrument to prevent the illegal use of fair value is to establish a "look back" mechanism for the fair value measurement model. This should be done in order to prevent some corporate financial report providers from using the fair value measurement model for "surplus management" operating profits. Yi (2019) believes that the long-term mechanism of the fair value measurement model should include the establishment of a follow-up audit and evaluation system. In particular, he thinks that the attention of lawmakers should be focused on the abnormal large-scale fair value changes. If an abnormal large-scale fair value change is present on a financial report, the enterprise should reasonably explain why this happens and justify the previous fair value measurement results. In this case, this specific disclosure is to be made within the financial report, so as to achieve the establishment of a long-term mechanism of "look back" of the fair value measurement model.

Chen (2018) sustains that the Chinese Government should find new ways to improve the legal system and provide legal protection for fair value measurement. He is firmly convinced that incorporating fair value measurement into the legal scope is not only a method to ensure the external protection of the implementation of value measurement accounting standards, but also a method to maintain the fair operation of fair value market coherent with legal requirements.

Zhang (2019) suggests that relevant state departments should reasonably regulate the measurement of fair value in related party transactions, and that the related parties should disclose the fair value during the transaction process. He believes that the illegal use of fair value in operations is to be exemplary punished. He also calls for a stronger legislation on fair value measurement, an improvement of existing regulations and clear explanations to lead accountants.

Zhang (2019) also believes that the fact that gains and losses are included in the changes in fair value, (which is different from the previous calculation of income) could favor the use of fair value for illegal scopes. As a matter of fact, he recalls that in the previous measurement method of transactional financial assets, short-term investments were measured at impairment. After the fair value measurement method was reintroduced, its change would also generate gains and losses. However, because the enterprise itself can freely choose the measurement method for assets and liabilities measured at fair value, this can cause the enterprise to use fair value measurement to declare false profits. There may also be inconsistencies in the use of fair value measurement standards between different entities of various enterprises. Therefore, Zhang (2019) believes that the Chinese Government should and improve the effectiveness of Chinese accounting standards, as well as fair value acquisition and determination laws and regulation. Chinese competent authorities should also try to create a fair, open and transparent market and operating environment, so that the acquisition of fair value can be based on law and evidence, voiding the phenomenon manipulation of profits at fair value.

Another instrument that could avoid illegal use of fair value is the strengthen of the corporate governance. As a matter of fact, in order to help reducing the manipulation of fair value by company management, it is necessary to strengthen the governance of company personnel (Zhang L., 2018).

First of all, it should be avoided that the majority of shares are in the hands of one person, so that the latter has absolute governance rights. On the other hand, the company should also strengthen its position in the market, so that its products or stocks have higher liquidity, as market transaction prices to determine the fair value of assets. At the same time, the company can also properly improve the management's competition mechanism and enhance management's risk awareness. Of course, the company should also strengthen the management of internal mechanisms and should constantly improve the company's risk assessment system in order to promptly identify the risks it is facing and guide fair value development in a reasonable direction (Zhang L.,2018).

The development of the market also imposes higher requirements on the information disclosed by the enterprise. It is increasingly necessary to continuously introduce fair value to reflect the assets of the enterprise in a real and timely manner. However, as mentioned above, the fair value implementation process due to the theoretical mechanism is still immature and may lead to some problems. Therefore, on the one hand, there is the need to constantly improve our relevant theories and formulate a reasonable system, while also not neglecting the governance of the company. Only a good market environment and reasonable company management can solve the problems that occur in the implementation of fair value (Zhang L.,2018).

Chen (2018) firmly believes that improving the corporate governance structure, imposing clear property rights and establish clear responsibilities are the key to improving internal governance measures. In internal governance, companies should continuously improve the investor system and establish corresponding liability systems. Recognize the rights, avoid excessive interference in enterprise management, establish an independent internal audit institution, systematically supervise and inspect the financial management of the company's economic activities, and improve the quality of fair value measurement and ensure accounting are the only ways to be sure that the information provided is true and reliable.

Also the inadequate education that accountants receive also casts a shadow on the Chinese education system, as it appears evident that companies still have troubles with applying fair value (Liu and Yuan, 2013).

It is proven that the capabilities and the skills of numerous accountants are limited (Zhang L.,2018).

There are two ways to solve this problem: the first one is to help accountants providing specific training and enhancing the quality of the education that they receive and the second is to improve guidelines to help them do their work at best.

For what concerns training, Li and Xie (2019) argue that the auditors of larger accounting firms should receive regular training on technical valuation topics. Training of course is fundamentally important to enable accountants to always be up-to-date on the new valuation methods, as a huge amount of new and complex financial instruments are constantly being developed. Moreover, it must be said that Chinese accountants experience a harder struggle than Western accountants because, as mentioned before, the use of fair value in the Chinese market is particularly difficult for the reasons beforementioned. Consequently, the use of fair value in China could be a serious challenge to auditors. This situation is extremely serious as the "complexity-capability gap" will expose the accounting industry to a high degree of risk (Li and Xie, 2019).

Moreover, there is the need for a clear explanation on what evaluation method to use when applying fair value. This is why a valuation guide needs to be issued in order to present all the selectable valuation methods to accountants and to provide instructions on what to do when there is the need to evaluate an asset or a liability at fair value. Also some advices on how to use the relevant parameters to consider should be included (Liu and Yuan, 2013).

A suggestion that could help understand if the use of fair value measurement is not improper and to help accountants struggling with the use of fair value is to provide both historical measures and fair value measures at the same time in two different financial reports, in order to reconcile contradiction and to enable confrontation (Liu,2010).

Furthermore, Liu (2010) suggests that it is possible and more practical to set two different measurement models at the same time. The historical cost model should be used for daily accounting work, while fair value measurement should not be used for daily accounting. At the end of the reporting period, two different financial reports should be produced. Furthermore, one of the evident limits to the development of the use of fair value accounting is that accounting staff does not seem to be qualified enough to apply fair value is the right way, and this also leads them to have prejudice against the use of fair value and to prefer to use historical cost measurement (Liu,2010).

Technical troubles seem to be the most difficult to overcome. As a matter of fact, it is evident that the use of fair value is linked with a certain level of technical complexity. This is why, according to Zhang L. (2018), it is fundamental to choose a reasonable method of dealing with changes in fair value. He suggests that, when the accountant notices that the asset value on the book is inconsistent with the actual value, the enterprise needs to immediately confirm the difference, so as to ensure that the accounting treatment and the actual situation of the asset are be consistent. Zhang L. (2018) is perfectly conscious that this kind of processing method can easily cause the profit change of the enterprise to be greatly affected by the market operation situation and that this is linked to the procyclicality of fair value. To this end, in his article he suggests that similar methods used for accounts receivable can be also used to deal with changes in fair value in advance. While confirming the assets, the accountant can also confirm the possible changes in the assets and adjust them on the basis of the amount withdrawn when the changes actually occur. (Zhang L.,2018)

Also Guo, Liu and Wu (2015) have a technical suggestion to improve the reliability of the use of fair value in China. The two scholars affirm that the biggest threat to the lawful and correct application of fair value in China is the massive use of third level fair value measurement. Even if China nowadays has an important capital trading market and an active stock market, its market maturity still has a widening gap with developed countries, so the price available is not a "hand-off price" in the full sense. Therefore, the current economic environment in China makes the third-level measurement have greater application space. This is why, according to Guo, Liu and Wu (2015) a deeper understanding of the input value of the third level is of profound practical significance. It is known that the main characteristic of the third level of fair value is that the input values used are unobservable. This undoubtedly creates troubles to accounts when it comes to determine the main market. To reasonably use this level of input value, Guo, Liu and Wu (2015) suggest to first correctly identify market participants, as this leads to solve the problem of the main market or the most favorable market for related assets or liabilities. When measuring the fair value of the asset or liability considered, the input value should be determined on the basis of the most favorable market, that is, the price that the major demanding enterprise in the is willing to pay.

Next, Guo, Liu and Wu (2015) suggest to use valuation techniques to determine the best estimate. Although valuation techniques recommend using as few unobservable inputs as possible, the use of some valuation techniques under the income approach for the third level of input values can also bring good results.

Finally, considering that the third level measurement may result in differences in the amount of financial statements and market value due to the existence of earnings management, lack of liquidity and opaque disclosure, information risks and potential earnings management risks, many scholars advise not to use it. (Guo, Liu and Wu,2015) Although Guo, Li and Wu (2015) still believe that third level measurement of fair value plays an indispensable role in inactive markets and when the input value is unobservable, the two scholars admit that reliability of the third level of fair value measurement is still significantly low and that its use should be avoided when possible.

Therefore, from what emerges from this section of the second chapter, there are numerous pieces of advice from expert accountants and scholars that suggest what are the measures that should be taken in order to favor the correct application of fair value measurements in China.

The majority of experts made comments on how the Chinese market may be changed in order to help with the reliability of the information provided.

The strengthening of the corporate governance and the strict control of competent authorities over the actions and the financial statements of Chinese companies are also valuable methods to avoid the illegal use of fair value to manipulate profits and provide false information to stakeholders.

New theoretical studies should be carried out in order to help accountants with the complicated use of fair value measurement. Meanwhile, also accountants must be helped to understand and apply fair value measurement better. This can only happen with the enhancement of their education and with frequent training.

Moreover, to prevent high audit costs, companies should establish good relationships with audit enterprises.

Nevertheless, one point appears to be of fundamental importance to scholars: the constant implementation and update of regulation.

Yi (2019), Zhang Y. (2018), Zhang (2019), Chen (2018) and Liu (2010) affirm that the issuance of new regulation is beneficial to improve the use of fair value as it provides guidelines to follow on how to apply and disclose fair value. This is why, according to Yi (2019), Zhang Y. (2018), Zhang (2019) and Chen (2018), CAS 39 has been of great help to apply fair value correctly. This standard seems to be the unitary and clear standard concerning fair value that many accountants, such as Liu (2010), were asking for.

2.4 Empirical studies on the disclosure of fair value in China

The analysis of empirical studies on the disclosure of fair value in China may help to acquire consistent and reliable information on the matter and to depict how the use of fair value has been carried out until now in China.

As a matter of fact, the analysis of the literature would be incomplete without considering the results of previous studies concerning the use of fair value in the Chinese Accounting System.

Needless to say, the majority of enterprises that use fair value deal with complex assets and liabilities that cannot be measured without the use of fair value, such as securities. Therefore, it can be affirmed that the use of fair value is prevalent in those enterprises that operate in the financial field.

One of the most authoritative governmental institution that deals with financial enterprises is, without any doubt, the China Securities Regulatory Commission.

The China Securities Regulatory Commission (CSRC) is a public institution at a ministerial level that answers directly to the State Council. It was founded in 1992 and its function is to perform a regulatory role over the securities and futures market of China, to maintain an order in the "orderly securities and futures market" and to ensure the legal operation of the capital market (CSRC, 2020).

The main task of the China Securities and Regulatory Commission is to supervise and administrate the domestic securities market. This is carried out by studying, formulating and suggesting policies and development plans specifically for the securities and futures markets (CSRC, 2020).

CSRC has to “supervise the issuance, listing, trading, custody and settlement of stocks, convertible bonds, bonds of securities companies” and to “supervise the securities investment bonds; approve the listing of corporate bonds; and supervise the trading of the listed treasury bonds and corporate bonds” (CSRC, 2020). CSRC experts have to observe the securities market behaviors of the listed companies and their shareholders and intervene when the law is not respected (CSRC, 2020).

The China Securities Regulatory Commission has the power to control “securities and futures business institutions, securities investment fund management companies, securities depository and clearing corporations, futures clearing institutions, securities and futures investment consulting institutions, and securities credit rating institutions” (CSRC, 2020). CSRC is also responsible for the testing of senior management in relevant institutions to find out if it is competent and prepared. It is also responsible for the help to the Securities Association of China and the Futures Associations of China in the control of the quality of the personnel engaged in securities and futures businesses.

Moreover, this organization is entitled to the supervision of the disclosure of information concerning securities and futures and to the management and disclosure of statistics that can give an helpful insight of the situation of futures and securities. (CSRC, 2020”).

Another crucial task that the CSRC has to carry is the investigation and penalization of the illegal activities in the securities and futures market. Moreover, every year since 2007 the CSRC publishes an annual reports where are listed the major Chinese securities, futures and fund management companies and where it describes their revenue and the one of the market in the selected year (CSRC, 2020).

This is why on the website of the institution are also published announcements and advice about the use of fair value measurement that are a result of the deep knowledge of the market and of the observation of annual and semi-annual reports of firms. From the announcements that are uploaded in the CSRC website, it can be understood that many companies had problems in the use of fair value (CSRC, 2020).

The annual reports issued by this Institution and the documents that it has issued online can provide important information about how fair value has been used by Chinese companies since its reintroduction since 2007.

The first evidence of the struggle of companies with fair value are the comments of the CSRC accounting department on its experience of supervision over the annual reports of listed companies of 2008.

According to the organization, it was evident that the companies that were considered had great problems in being consistent with Chinese accounting standards. The biggest issue was the measurement and the disclosure of fair value. This is why the CSRC, during the preparation of listed companies' annual report of 2008 conducted an investigation and sent 41 letters to the companies that had the most serious troubles in using fair value, to help them understanding what should be disclosed when measuring fair value (CSRC, 2009).

In CSRC announcement no.43 of 2009, the institution tries to help companies with the understanding of fair value again. In this case, the institution tries to define what can be considered an extraordinary profit or loss and how, eventually, these extraordinary profit or loss related to fair value may be disclosed, as they believe that this point has not been understood. (CSRC, 2009).

Remembering the worrying result of the previous year, the 10th February 2009 CSRC made announcement no.48 to comment the year 2008, where it exhorts firms to "do a good job" in the use and disclosure of fair value measurement.

The institution asks companies, when it comes to fair value, to adhere to the regulation presented by the Chinese accounting standards, to follow the principle of prudence and to use appropriate methods to evaluate an asset or a liability at fair value.

The Institution claims that, when it comes to evaluate an asset or a liability at fair value, "the rationality of evaluation mode and calculation parameters" need to be the focus of the attention of companies (CSRC,2009). Therefore, the CSRC has also enclosed some guidelines and a table to help companies to select major parameters, to know how to carry on the evaluation process, to execute the necessary sensitivity analysis and to help in the disclosure of fair value.

On 12th September 2014, CSRC issued an annual report review about 2013 annual report, where the use of fair value is mentioned quite many times (CSRC, 2014).

In this review, where the experts of the organization also judge the quality of the accounting of the firms whose doings are supervised by the CSRC. The institution questions the competency of accountants of some firms, as in the document is stated clearly that “some companies are found lacking convincing grounds for […] proper fair value adjustment based on value appreciation estimate” (CSRC, 2014).

The disclosure of certain financial instruments and their fair value measurement is defined as “less than convincing” (CSRC, 2014).

CSRC experts accuse that some corrections that they have found in the annual reports of certain firms are irrational and that many companies failed to present “quantifiable criteria for "serious” or “non-temporary” decrease of the fair value of equity instruments, and basis for determining the period during which cost decreases continuously” (CSRC, 2014).

In the announcement no.3 of 2014, which analyses the contents and formats of 2014 semi-annual report, the institution reminds that, for affiliated transactions on the purchase and sale of assets, companies shall at least disclose the market fair value of assets, if it is present. Moreover, it is required that, if there is a big difference between “the trading price and the face value, or appraised value or fair market value, the company shall explain the reason” (CSRC, 2014).

On 28th May 2014 CSRC issues the announcement no. 21 about the analysis of assets and liabilities.

In this document, the institution warns companies that if a change of more than the 30% occurs to the “proportion of the company’s main assets and liabilities to the total assets in the reporting period, the company shall explain the reasons for such change” (CSRC, 2013).

CSRC also remembers that for connected transactions of assets acquisition and sales, the market fair value of assets should be disclosed, and that if there is a big difference between the transaction and fair value the company should explain why this happens.

It is astonishing how the documents issued by this important Organ of the Chinese Government that report a bad use of fair value by Chinese companies and give advice on how the use of fair value should be implemented stop after the 1st of July, the date of the entry into force of CAS 39.

Does that mean, by chance, that all the companies that are controlled by the CSRC have followed the requirements of CAS 39 perfectly and that the issuance of this standard has really helped the increase in the disclosure of fair value measurement in the annual reports of companies?

Also Xiao and Hu (2017) have published a study about the disclosure of fair value in Chinese listed companies. The two scholars selected the annual reports of 27 listed financial companies and 120 randomly selected non-financial companies for the years 2007-2011. They proceeded with the download of the annual reports for the period mentioned before from the website www.cninfo.com.cn. As a matter of fact, Chinese listed companies are required to publish their annual reports and other financial and relevant information on this website so that the China Securities Regulatory Commission can control their data and find evidence of eventual illegal reporting.

Xiao and Hu (2017) declared that they verified the fact that the information concerning fair value that was disclosed in the annual reports analyzed was characterized by low volume and low quality. Their findings are consistent with those of the CSRC for the years 2008 and 2013.

Xiao and Hu (2017) observed that the main problems were related to the information disclosure. For instance, they affirm that in the annual reports considered there was little disclosure of the fair value of stock options, available-for-sale financial assets, and financial assets without quoted prices from publicly active markets.

The two scholars believe that this has happened because in the standards issued in 2006 were not clear. For instance, in the first 38 Chinese accounting standards is not specified what are the methods that can be used to calculate the price of assets and liabilities at fair value. They also found out that many disclosure requirements of the Chinese Accounting Stanadrds were not observed. For example, the provision of CAS 8 about goodwill was not considered, and there is no indication in any of the annual reports analyzed that there could be any impairment of goodwill (Xiao and Hu, 2017).

It is evident from the findings by the China Securities Regulatory Commission and by Xiao and Hu that, during the years 2007-2013, the measurement of assets and liabilities at fair value in the annual reports in companies was not adequate and did not follow standards.

Also the study by Qu and Zhang underlined that there was a very low level of accuracy in the use and disclosure of fair value. Furthermore, they underlined the fact that there is a relationship between the issuance of fair value and the increase of value-relevance (the ability of the information disclosed in the financial statements to show the value of a firm) of financial information disclosed by Chinese companies (Qu and Zhang, 2015).

Qu and Zhang published in 2015 their study on the changes of value-relevance of financial information in Chinese companies. They chose a sample of enterprises for the period of time 1991-2010 selected from the China Centre for Economic Research and China Stock Market Accounting Research Database. They divide this long period of time into five sections according to the accounting regulation emanated in China. Period one lasts from 1991 to 1992, period two lasts from 1993 to 1998, period three lasts from 1998 to 2000, period four lasts from 2001 to 2006 and period five lasts from 2007 to 2010. Qu and Zhang considered all the companies operating in the financial, mining, real estate and farming-forestry-fishery sector. To be taken into account for the study, companies had to favorably meet certain requirements. First, companies' total assets and owner's equity had to be greater than zero. Then, the annual reports of the firms considered are available online on the websites of the Shanghai Stock Exchange and of the Shenzhen Stock Exchange since 2007. Moreover, all firms had to exist continuously in the period of time between 2001 and 2010. They obtained a total of 58 firms for 580 firm-year observations.

In the course of their study, Qu and Zhang then noticed that the level of value-relevance of book earnings and book value incrementally increased in the period of time number five. To verify if this increase in the value-relevance was somehow linked to the reintroduction of fair value, scholars made distinctions among the firms that applied fair value and those which did not apply fair value. It emerged that, of the firms concerned, 43 applied fair value (for 430 firm-year observation) and 15 did not apply fair value (for 150 firm-year observation).

The results of the research carried out by Qu and Zhang show that the value-relevance of earnings and book value increased both in companies that applied fair value and companies that did not apply fair value. Therefore, Qu and Zhang (2015) believe that it was the issuance of CAS 2006 that actually helped in the increase of the value-relevance of financial information. Moreover, the explanatory power of earnings on share price increased significantly for both types of companies. Furthermore, Qu and Zhang (2015) affirmed that, according to the results that emerged from their study, financial information have a higher quality in those firms that use fair value. This means that the issuance of new regulation has helped increasing the disclosure related to fair value, but that this disclosure is still uneven across industries due to the different development of market mechanisms and the difficulty to find information concerning fair value. Therefore, Qu and Zhang (2015) believe that there is still a long way to the full adoption of fair value in China and that the issuance of new regulation could help companies in improving their use and disclosure of fair value. Anyway, the study conducted by Qu and Zhang (2015) concerned companies from 1991 to 2010. In the study itself the scholars affirm that further research should be done after the introduction of CAS 39, to see if this new standard has somehow had an impact on the information concerning fair value information provided by Chinese companies.

Even Liu and Wang in 2009 have published their study to complaining about the fact that there was a lack of precision and disclosure in the use of fair value by Chinese companies. The two scholars have analyzed the annual reports for year 2007 and year 2008 of Chinese companies listed in the security markets of Shanghai and Shenzhen to find out how fair value was used by them. Liu and Wang found out that nearly one third of the companies considered in their studies measured trading securities using fair value. Nevertheless, even if fair value was so commonly used by companies, the information concerning how fair value has been calculated was disclosed just by a few companies. It is extremely important to disclose the valuation method for the pricing of assets and liabilities at fair value, as this process is fundamental to judge whether the application of fair value is correct or not. Furthermore, Liu and Wang (2009) inform that information concerning the main market, accounting policies used and certain accounting estimates required by CAS 2006 are nowhere to be found in annual reports of the companies analyzed. Therefore Liu and Wang (2009) affirm that, in the period of time considered, the disclosure that can be observed in the annual reports of the Chinese listed companies considered is extremely low.

From the empirical studies concerning the use of fair value measurement presented emerges a discouraging portrait of lack of proper disclosure in the annual reports of Chinese companies.

According to the study by Qu and Zhang (2015) it is right to affirm that CAS 2006 has the merit of having reintroduced the use of fair value and to have enhanced the level of disclosure of fair value compared to older standards, but, as it emerges from the studies presented before, the level of disclosure in annual reports is still insufficient.

It is interesting to observe that all the studies that could be found concerned CAS 2006 and not CAS 39, which is the ultimate standard for the use of fair value and was issued in 2014. Comments on how the use of fair value has been implemented in companies were expected especially from the China Securities Regulatory Commission, as the latter is an institution that has to supervise how Chinese companies operate.

The lack of empirical studies for the period of time that goes from the 1st July 2014 onwards and of comments on how the use of fair value has been carried out by companies since the issuance of CAS 39 leads us to believe that there have not been particular problems in the use of fair value.

It is also reasonable to believe that the issuance of new regulation, as affirmed by many scholars such as Yi (2019), Zhang L. (2018), Zhang (2019) and Chen (2018) , has helped the improvement of the disclosure and of the right use of fair value.

Is it therefore possible to suppose that CAS 39 was fundamental to help enterprises to enhance the disclosure of fair value?

Chapter 3: Empirical research on the disclosure of fair value before and after the issuance of CAS 39

3.1 Purpose of the research, research question, research hypothesis, sample selection and methodology

The purpose of the research is to determine empirically whether the issuance of CAS 39 has determined an increase in the disclosure of fair value in the annual reports of Chinese companies.

It is evident from the findings by the China Securities Regulatory Commission, by Xiao and Hu (2017), by Qu and Zhang (2015) and by Liu and Wang (2009) that the fair value measurement of assets and liabilities at fair value in the annual reports of companies of the period of time that goes from 2007 to 2013 did not follow the requirements of standards for what concerns the disclosure of fair value. As there are no empirical studies nor critical reports on the disclosure of fair value accounting in the annual reports of companies issued since 2014, it is legitime to wonder whether it is just a coincidence that the disclosure of fair value has not been criticized since the year of the issuance of CAS 39. Many scholars before 2014, such as shown in the second chapter, have asked for a detailed and complete regulation that could explain how to use fair value. According to scholars, such regulation could have helped the correct application of fair value and increased its disclosure.

Therefore, the research question of this study is the following:

1. Did the issuance of CAS 39 determine an increase of the disclosure of fair value in the annual reports of Chinese companies?

The research hypothesis is that CAS 39 has increased the disclosure of fair value in the annual reports of Chinese companies.

In order to provide a certain answer to this question, it is relevant to compare the disclosure of fair value in the annual reports of Chinese companies before the issuance of CAS 39 and after the issuance of CAS 39.

In order to do so, I have decided to take the sample of enterprises from the annual reports of the China Securities Regulatory Commission, as the latter is the institution that complained about the lack of disclosure of fair value for the annual reports of year 2008 and year 2013 and whose lamentations I have displayed in the second chapter of this study.

The CSRC publishes each year an annual report where it lists the names of the companies controlled and displays every relevant matter observed in the annual reports of those companies and every important event for the Chinese securities market.

I have chosen to analyze the annual reports for year 2007, as this is the first year when the use of the Chinese GAAP of year 2006 becomes compulsory, and for year 2014, as the latter is first year when the application of CAS 39 becomes compulsory.

Therefore, to be selected for the study, companies listed in the annual reports for had to meet the following requirements:

1. Being in the list of companies displayed in the annual reports of CSRC for year 2007 or year 2014
2. Use fair value
3. Use PRC GAAP
4. Have an annual report written in English

The companies selected are the following:

1. For year 2007, just 7 companies out of the 124 listed in the CSRC annual report met the criteria
2. For year 2014, just 8 companies out of the 896 listed in the CSRC annual report met the criteria

It was then time to create a disclosure checklist. After downloading from http://www.casplus.com/rules/rules.asp the full Chinese text of the standard CAS 39, I translated it from Chinese to English and I underlined every single requirement. I had then a total of 73 requirements that needed to be disclosed in the annual reports of Chinese companies when using fair value. These requirements became the items of my disclosure checklist.

I divided the requirements in the three main sections of the annual report, according to which part of the annual report the requirements were referring to (balance sheet, income statement or notes). This would help me to see whether there are significant differences between the disclosure of the various sections.

The results were the following:

1. Section of the balance sheet: 5 requirements of disclosure
2. Section of the income statement: 6 requirements of disclosure
3. Section of the notes: 62 requirements of disclosure

I then designed two tables, one referring to the annual reports for year 2007 and one referring to the annual reports for year 2014. I have listed and numbered (according to their order of appearance in the regulation and the section of the annual report they refer to) the requirements for the disclosure of annual statements of CAS 39 in the first column of each table and I have displayed the names of the companies considered in each other column.

Then, I verified if the requirements of CAS 39 were respected by companies. Following the disclosure checklist, I analyzed the annual reports of each company and I collected the results in each table. If the requirement had been respected, I marked "1" under the name of the company considered, while I marked "0" for each requirement that was absent or not respected in the annual report.

I calculated then the arithmetic mean, the arithmetic mean percentage, the median value, the percentage of the median value, the minimum value, the percentage of the minimum value, the maximum value, the percentage of the maximum value, the standard deviation and the percentage of standard deviation of the disclosure of every requirement, every section of annual report (namely balance sheet, income statement and notes) and every annual report for both year 2007 and year 2014. Percentages are calculated on the total of the 73 requirements that have to be followed in annual reports according to CAS 39.

In the following pages are displayed the results of the beforementioned mathematical formulae for every requirement, every section of annual report and every annual report in two distinct tables, one for year 2007 and one for year 2014. Each table is followed by comments on the results presented and considerations on the disclosure of fair value.

In the last part of the chapter, a comparison between the results of the two years is presented, in order to verify if CAS 39 has effectively caused an improvement in the disclosure of fair value as the hypothesis of this study suggests.

3.2 Results for year 2007

I hereby present the results for year 2007 in the following table. "Mean" refers to "arithmetic mean", "median" refers to "median value", "min" refers to "minimum value" and "max" refers to "maximum value".

The presented data have been rounded to the second decimal place for practical reasons.

TABLE 1. DISCLOSURE CHECKLIST OF ANNUAL REPORTS FOR YEAR 2007

REQUIREMENTS FOR THE BALANCE SHEET	MEAN	MEAN %	MEDIAN	MEDIAN %	MIN	MIN %	MAX	MAX %	STANDARD DEVIATION	STANDARD DEVIATION %
1.Financial assets and liabilities from the portfolio	0.85	1.17%	1	1.37%	0	0	1	1.37%	0.37	0.5%
2. Quantitative information in tables	0.85	1.17%	1	1.37%	0	0	1	1.37%	0.37	0.5%
3. Assets and liabilities grouped properly	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
4. Distinction between recurrent and non-recurrent expenses	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
5. The opening balance and the reconciliation information	0.57	0.78%	1	1.37%	0	0	1	1.37%	0.53	0.72%
BALANCE SHEETS SUBTOTAL	3.14	4.3%	3	4.11%	0	0	5	6.85%	1.57	2.15%
REQUIREMENTS FOR THE INCOME STATEMENT	MEAN	MEAN %	MEDIAN	MEDIAN%	MIN	MIN %	MAX	MAX %	STANDARD DEVIATION	STANDARD DEVIATION %
6.If the transaction price is not consistent with fair value, the company must include related gains or losses, unless specified otherwise in the calculation guidelines	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
7.Quantitative information in tables	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
8.Total gains or losses for fair value displayed in current profit and loss	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
9. Disclose total loss or loss, and include in the current period the items of profit or loss when these gains or losses were recognized	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
10.Profit and loss items are gains and losses from changes in the fair value of related assets or liabilities	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
11.Total gains or losses of other comprehensive income in the current period and their recognition and comprehensive income items at the time of loss	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
INCOME STATEMENTS SUBTOTAL	3.71	5.08%	5	6.85%	0	0	6	8.22%	2.56	3.5%

REQUIREMENTS FOR THE NOTES	MEAN	MEAN %	MEDIAN	MEDIAN %	MIN	MIN %	MAX	MAX %	STANDARD DEVIATION	STANDARD DEVIATION %
12.Use of fair value	1	1.37%	1	1.37%	1	1.37 %	1	1.37%	0	0
13.Status and location of assets and liabilities	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
14.If assets or liabilities are calculated individually or in combination	0	0	0	0	0	0	0	0	0	0
15.Assets and liabilities are valued in the current market at the measurement date	0.71	0.98%	1	1.37%	0	0	1	1.37%	0.49	0.67%
16.The transaction of the pricing is an orderly transaction	0	0	0	0	0	0	0	0	0	0
17.The main market is the one where the majority of transactions take place	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
18.If the main market is not to be found, the most favorable one must be considered	0	0	0	0	0	0	0	0	0	0
19.The company must provide information on the reason why they chose a particular market	0	0	0	0	0	0	0	0	0	0
20.Disclose if an asset or a liability has more major or favorable markets	0	0	0	0	0	0	0	0	0	0
21.Market participants are independent from one another	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
22. Market participants are those buyers and sellers that trade in the principal market of the asset or of the liability concerned	0	0	0	0	0	0	0	0	0	0
23.Parties are familiar with the market and willing to undergo the transaction	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
24.The fair value at the time of initial recognition is equal to its transaction price	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
25.If the fair value at the time of initial recognition is not equal to its transaction price the company has to prove that market conditions were respected.	0	0	0	0	0	0	0	0	0	0
26.Estimates for the transaction are supported with sufficient and adequate data and information	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
27.Unobservable inputs are used when observable inputs are unavailable or impractical to use	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
28.Use transaction price as observable input when it comes to initial measurement, while valuation techniques based on unobservable inputs can be used in the subsequent measurement of fair value.	0.42	0.57%	0	0	0	0	1	1.37%	0.53	0.72%
29.Correct the valuation technique so that the confirmation result is equal to the transaction price	0	0	0	0	0	0	0	0	0	0
30. The technology used to measure fair value must not change and if this is not possible explanations are required	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
31.Changes in valuation estimates and valuation techniques	0	0	0	0	0	0	0	0	0	0
32. Descriptive information about input values used	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%

33. Companies must declare if they made adjustments to the quoted price of an asset or of a liability	0	0	0	0	0	0	0	0	0	0
34.Declare the use of bid meters to measure the asset position and use the asking price to measure the liability position	0	0	0	0	0	0	0	0	0	0
35. Give priority to the use of the first level input value, then to the second level input value and finally to the third level input value	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
36.The level of fair value used and why the second or the third level is used	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
37. The input value of the first level must be the same as the value of assets or liabilities that can be obtained at the measurement date	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
38.The first level of input must be applied to the asset or liability without adjustment	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
39.If enterprises own different assets or liabilities with similar characteristics, whose market quotation is active but difficult to obtain, they can separately price assets or liabilities at the measurement date and use other valuation models that do not rely solely on quotes	0	0	0	0	0	0	0	0	0	0
40.When companies quote similar assets in active markets, they must divide the fair value measurement results into lower levels for adjustment	0	0	0	0	0	0	0	0	0	0
41.When companies quote similar assets in active markets they need to disclose the input values and the relevance of the latter to similar assets or liabilities, the trading volume and the activity of the market where the input value can be observed	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
42.For related assets or liabilities that have to follow a specific period such as contract period, the second level input value must be observable for almost the entire period.	0	0	0	0	0	0	0	0	0	0
43.Companies must consider that, if the internal data they are willing to use has industry-related characteristics, they must make corresponding adjustments and disclose it	0	0	0	0	0	0	0	0	0	0
44.Determine whether the use of non-financial assets is permitted by the law ,physically possible and financially feasible	0	0	0	0	0	0	0	0	0	0
45.Judge non-financial assets from the perspective of the best use of market participants	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
46. Companies must use single non-financial assets to generate maximum value	0	0	0	0	0	0	0	0	0	0
47.If companies associate a non-financial asset with other assets, the asset must be sold to another market participant that uses the asset in the same combination	0	0	0	0	0	0	0	0	0	0

48.All the non-financial assets in combination the portfolio that are relevant for best use must be sold to a market participant that uses the asset in the same combination to maximize their value	0	0	0	0	0	0	0	0	0	0
49. When a company measures liabilities using fair value, it must assume that, on the measurement date, the liability is transferred to other market participants and it continues to exist even after the transfer. The market participants that receive the liability must perform their obligations related to the acquisition of the liability	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
50.When an enterprise measures its own equity instruments at fair value, it must assume that these instruments are transferred to market participants and that these equity instruments will not cease to exist after the transfer. The new owner of these equity instruments, after the transfer, will assume corresponding rights and obligations	0	0	0	0	0	0	0	0	0	0
51.For the second level of fair value enterprises must use as an example any observable market that presents liabilities and equity instruments that are similar to the ones that the company owns.	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
52. If there is a quotation of the liability or of the equity instrument at hand, the valuation at fair value of the liability and of the equity instrument must be determined on the basis of the value of the quotation	0	0	0	0	0	0	0	0	0	0
53.If a financial liability with specific characteristics is to be repaid, the fair value of the financial liability shall not be lower than the debt	0	0	0	0	0	0	0	0	0	0
54. Declare if the industry manages funds based on the net exposure of specific market risks or specific counterparty credit risks	0.28	0.39%	0	0	0	0	1	1.37%	0.48	0.66%
55. General exposure of assets or liabilities to specific market risk or specific counterparty credit risk	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
56. The effect of the net credit risk exposure of a particular counterparty	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
57. Relevant information explained	0.42	0.57%	0	0	0	0	1	1.37%	0.53	0.72%
58. Relevant standards that require or allow the use of fair value	0.42	0.57%	0	0	0	0	1	1.37%	0.53	0.72%
59. Descriptive information about valuation techniques used	0.42	0.57%	0	0	0	0	1	1.37%	0.53	0.72%
60. Disclose the change of valuation policy	0	0	0	0	0	0	0	0	0	0

61.For the third level of fair value measurement, when the unobservable input is changed and this may cause a significant change in fair value, the enterprise must disclose the relevant descriptive information	0	0	0	0	0	0	0	0	0	0
62.If there is a correlation between observable input values and other unobservable input values used companies must describe this correlation and its impact	0	0	0	0	0	0	0	0	0	0
63. Considering financial assets and financial liabilities, it is assumed that changing one or more unobservable input values will result in a significant change in fair value, therefore companies must disclose the change of input values made, the impact of the change and the calculation method used	0	0	0	0	0	0	0	0	0	0
64.If the best use of non-financial assets is different from its current use, the enterprise must disclose this fact and the reason why it occurs	0	0	0	0	0	0	0	0	0	0
65.It must be disclosed if there is valuable regulation that allow or ask to continue to evaluate, in certain conditions, amounts at fair value, as well as the reason for this	0.42	0.57%	0	0	0	0	1	1.37%	0.53	0.72%
66.For the second level of fair value measurement, the enterprise must disclose descriptive information about valuation techniques and input values.	0	0	0	0	0	0	0	0	0	0
67. For the third level of fair value measurement, the enterprise must disclose descriptive information about valuation techniques, input values, valuation processes and fair prices.	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
68. For the second and third level of fair value, when changing valuation techniques, companies disclose the change and also explain why the decision to change was taken.	0	0	0	0	0	0	0	0	0	0
69. Adjust the fair value measurement level at the relevant time	0.14	0.19%	0	0	0	0	1	1.37%	0.38	0.52%
70. Accounting policies are consistent in all accounting periods	0	0	0	0	0	0	0	0	0	0
71.When using the third level of fair value, use relevant quantifiable information about unobservable inputs	0	0	0	0	0	0	0	0	0	0
72.Third-party credit enhancement liabilities	0	0	0	0	0	0	0	0	0	0
73. Declare not to apply discounts or premiums arising to the large holdings of related assets and liabilities	0	0	0	0	0	0	0	0	0	0
NOTES SUBTOTAL	8.43	11.54 %	6	8.22%	1	1.37 %	18	24.66 %	7.08	9,70%
ANNUAL REPORTS TOTAL	15.57	21.33 %	15	20.55%	2	2.74 %	28	38.36 %	10.24	14.03%

Source: data collected by the author of this final thesis

From the data displayed in Table 1 it can be understood that the level of disclosure of fair value-related information in annual reports was essentially very low in the year 2007. As a matter of fact, according to the requirements of CAS 39, there is a general insufficient level of disclosure.

Let's start the analysis commenting the results for the first section, namely the section of the balance sheet. Concerning the balance sheet, the disclosure is quite high, even if it must be considered that the standard requires the disclosure of only 5 items. Six companies out of seven have complied with requirement number 1 and 2. As a matter of fact, it is understandable that all the financial assets and liabilities that a company owns should be disclosed in the income statement at fair value (as requirement 1 asks) and that all the companies disclose quantitative information in tables (as requirement 2 asks). The only company that did not follow these requirements, as a matter of fact, has not disclosed any assets or liabilities measured at fair value in the balance sheet. Then, requirement 3 asks companies to group assets and liabilities properly in the balance sheet. Still, the use of the term "properly" appears ambiguous here, as there is no clear definition of what regulators mean by "properly". Therefore, I have observed that all the companies that disclosed assets and liabilities measured at fair value in the balance sheet (therefore six of the companies considered) named precisely the groups of assets and labilities measured at fair value in the balance sheet, except one, which would only disclose "changes from fair value". I have therefore deemed appropriate the first approach and considered that five companies over seven have grouped assets and liabilities properly. Then, four companies out of seven have shown the opening balance and the related reconciliation information as demanded by requirement number 5. This fact is particularly severe as reconciliation information are helpful to gain a more punctual and accurate view on the gains and losses of the company in the in the year 2006 and those for the year 2007. Then, the information that was the hardest to find in income statement is the distinction between current and recurrent expenses, namely requirement number 4. As a matter of fact, CAS 39 establishes that companies need to differentiate recurrent expenses from non-recurrent ones. The first ones refer to expenses that happen within expected periods, at regular intervals, while non-recurrent expenses are difficult to anticipate and occur at different intervals of time. From the total results for the income statement for the year 2007, it emerges that the disclosure level for this section is quite high. As a matter of fact, the arithmetic mean of the items disclosed is 3.14, for a disclosure percentage of 4.3%. The median value is 3, with a percentual disclosure of 4.11%. As I have anticipated, there is a company which did not disclose any information required in the income statement, therefore the minimum value is 0. The maximum value is 5, meaning that there is at least a company that has followed the disclosure requirements of CAS 39 perfectly, for a disclosure percentage of 6.85%. The standard deviation is 1.57, for a disclosure percentage of 2.15%. The low number of the standard deviation means that there is no great change between the number of items disclosed by the companies in the balance sheet for the year 2007.

For what concerns the income statement, there are just six items to be disclosed and fortunately their disclosure has been respected by the majority of companies. As a matter of fact, five companies out of seven have disclosed requirement number 6, 7,8, 9 and 10. These five requirements are particularly important as they demand the basic disclosure for gains or losses through fair value. The declaration of profit and losses for changes at fair value is of extreme importance as this is required since 2007, and it is profit and losses from fair value presented in the income statement that are often directly credited into capital surplus by Chinese listed companies, as Zhang J., Zhang F. and Zhou (2011) sustained. Just one company over seven disclosed total gains or losses of other comprehensive income in the income statement, as requested by requirement 11. It is therefore noticeable that the level of disclosure in the income statement section is not that low, but that this is still higher compared to the one of the notes. The arithmetic mean of the items disclosed in the income statement is 3.71, with a percentage of disclosure of 5.08%. The median value is 5, and its percentage is 6.85%. The minimum value is 0, as there are two companies that did not disclose any information concerning fair value in the income statement. On the contrary, the maximum value measured is of 6 items disclosed over 6, for a percentage of disclosure of 8.22%. The standard deviation is very low, only 2.56, while the its percentage is 3.5%. This means that there is no significant difference between the quantities of disclosed items for each company.

The section of the notes should be the one with a relatively high number of items disclosed, as, according to my research, CAS 39 asks companies to respect 62 requirements for the section of the notes. Moreover, this section is especially important as CAS 39 contains a lot of requirements that do not only concern the mere use and calculation of fair value, but also about the state of the asset or liability, its market and the existent relationship between market participants. Unfortunately, the results were not up to my expectations, as from data collected it emerges that the number of pieces of information disclosed in the notes is extremely low compared to the requirements of CAS 39. As a matter of fact, from the data that are presented in the table it seems evident that every company declared in the notes that they intended to use fair value to price certain assets and liabilities (which is requirement number 12), but just a few of them respected the following requirements. The requirement that has been followed by the majority of enterprises is requirement number 15, which asserts that all companies that measure an asset or a liability at fair value must declare that the assets and the liabilities concerned are valued in the current market at the time of the measurement date. The latter is the fundamental requirement for the measurement of fair value, and the basis of fair value measurement. As a matter of fact, if this condition is not respected, the measurement of an asset or a liability at fair value is not possible. It is not surprising, then, that five companies over seven disclosed this requirement. For all the other requirements, three companies over the seven concerned have disclosed the information required by item 28, item 57, item 58, item 59 and item 65. The requirement number 28 asks companies declare the use of transaction price as observable input when it comes to the initial pricing of the assets and liabilities that are measured at fair value. This requirement has been followed as it is one of the basic requirements of the use of fair value. As a matter of fact, the use of the first level of fair value is based on the use of the transaction price to price assets and liabilities. I believe that the analysis of requirement number 57 is particularly interesting. As a matter of fact, the latter asks companies to disclose relevant information in the notes, but without providing any example of what can be categorized as a "relevant" piece of information and leaving therefore some issues on the definition of what "relevant" means and what information should be provided. I have chosen to concede the point to the companies that have proven to have the highest total number of requirements disclosed in the notes. Requirement number 58 asks companies to disclose "relevant standards that require or allow the use of fair value". It is reasonable to affirm that, with this affirmation, the standard setter means all the standards emanated by the CASC, namely the Chinese Accounting Standards Committee. Also this information is essential and needs to be disclosed in order to prove that everything that is written in the annual report is consistent with the requirements of the Chinese Accounting System. Then, an information that has had a relatively high level of disclosure is the one listed at number 59 in Table 1, namely "descriptive information about valuation techniques and input values used". This is also a very important requirement, because the disclosure of the valuation techniques and of the input values used are extremely important to understand what level of fair value is used by companies and if its use is correct. Unfortunately, the disclosure of this requirement just for three companies out of seven is probably a signal that the application of fair value may have been incorrect. Item 65 is also particularly important as it asks to specify why companies used fair value to evaluate that particular asset or liability.

It is evident, from the data disclosed, that two companies out of seven have disclosed information concerning the status and location of asset and liability measured at fair value (requirement number 13), market participants (requirements number 21 and 23), how to measure fair value (requirement number 24), the estimates for the transaction (requirements number 26 and number 27), the technology and the level of far value measurement (requirements 30,35,36,37,38 and 51) and risk management (requirement number 54). Requirement number 26 is particularly interesting, as it affirms that estimates for the transaction considered must be supported with sufficient and adequate data and information. Again, it is really hard to judge what number of pieces of information may be considered "sufficient" and what pieces of information could be considered "adequate" for what concerns the estimates of the transaction. I have decided that there are two companies that have disclosed enough pieces of information about transaction disclosure following the other requirements concerning this matter and judging that have two companies as the ones that have disclosed the greatest number of items. It is then interesting to underline the fact that only two companies followed requirement number 36, which is undoubtedly one of the most important pieces of information concerning fair value that can be disclosed in the annual reports: the level of fair value and the reason why the second or third level measurement is used. As a matter of fact, I have noticed that the majority of companies makes hints about what level of fair value they use, but do not disclose it plainly. This may lead to misunderstanding in the comprehension of the data presented in the annual report. This should be avoided with the simple declaration of the level of fair value used. Moreover, it is important to disclose why the second or third level is used, as it is stated in CAS 39 that the use of these levels of measurement should be avoided, as the first level of fair value can be also considered as the most reliable. Then, there are the requirements that were respected by only one company over seven. These concern the concept of main market (requirement number 17), the input values used to measure an asset or a liability (requirement number 32 and requirement number 41), the concept of best use (requirement number 45), the state of the asset and liability after the transaction (requirement number 49), the risks managed by companies (requirements number 55 and 56), the third level of fair value (requirement number 67) and the accounting policies (requirement number 69).The most relevant requirements of this cluster are undoubtedly requirement number 41 and requirement number 67. Even if not written plainly in the regulation, requirement 41 is linked to the use of the second level of fair value, and therefore the company that has disclosed it has undoubtedly used the second level of fair value, while requirement number 56 is linked to the use of the third level of fair value. Both requirements are extremely important as they provide information on how to disclose adequate information on the level of fair value used by the company, which is extremely relevant to the pricing of the asset or the liability. It is unacceptable that just one over seven companies has disclosed this information. Requirement number 45 is also interesting as it introduces the concept of "best use" of an asset or a liability. As a matter of fact, the concept of best use is strictly linked to the use of fair value, as this concept means the valuation of an asset in such a way that maximizes its value (Gottlieb, Meulmeester and Bohlin ,2009). All the other requirements have not been respected by companies. It is incredible how high is the number of requirements that have not been respected by companies for the annual reports of the year 2007. The requirements that have not been respected concern the calculation of assets and liabilities (requirement number 14), the concept of orderly transaction (requirement 16) the concept of most favorable market and its choice (requirements number 18,19,20), the concept of market participant (requirement 22), the valuation technique, valuation inputs and accounting policies (requirements number 25, 29, 31, 33, 34, 39, 40, 42, 43, 60, 61, 62, 63, 68, 70 and 71), how to deal with non-financial assets (requirements number 44,46,47,48,64), the second level of fair value (requirement 66) how to measure equity instruments and liabilities at fair value (requirements number 50, 52 and 53), third-party credit enhancement liabilities (requirement number 72) and how to apply discount (requirement number 73). It is evident that the majority of requirements that were not followed concern the disclosure of valuation technique and of valuation inputs. According to what emerges from the empirical studies presented in chapter 2, many Chinese companies struggled with the technical application of fair value. This fact also emerges from the low level of disclosure of these annual reports, as the difficulty in the application of fair value may be the cause of incomplete and ambiguous disclosure. From the data collected, it resulted that the arithmetic mean of the items disclosed is 8.43 and its percentage is equal to 11.54%. It is evident that the arithmetic mean of the items disclosed is very low, and this can be also observed when considering the median value, which is only 6, with a percentage of 8.22%. The minimum value of disclosure is of one item, with a percentage of disclosure that is equal to 1.37%. The maximum value, on the contrary, is 18 items over 62 and has a disclosure percentage of 24.66%. When it comes to the estimation of the standard deviation, the latter is only 7.08, for a disclosure percentage of 9,70. Its low number means that there is no great substantial change between the values presented by the companies analyzed. This means that, on average, the level of disclosure of the notes of the annual reports for the year 2007 according to the provisions of CAS 39 was generally very low. What appears to be very detrimental to the correct use of fair value is the absence of any specification about the input values used and the methodology that is used to measure assets and liabilities. It is possible that the companies may have used wrong input values and may have given preference to second or even third level fair value over the first one. It is also possible that companies may have used wrong valuation methods to calculate fair value.

The incomplete disclosure of the notes deeply affects the reliability of the entire annual report, as this part is fundamental to provide information concerning the use of fair value. Without an adequate disclosure, it is impossible to know if the provisions of the regulation have been effectively respected. This fact consequently arises some concerns over the correct application of fair value. As a matter of fact, without sufficient disclosure, it is likely that companies may have used fair value wrongly. The arithmetic medium of the total disclosure of annuals reports for the year 2007 is 15.57, while the arithmetic medium of the percentage of disclosure is equal to 21.33%. The median value is 15 and its percentage is equal to 20.55%. The minimum value of disclosure occurs in the annual report for the year 2007 amounts to only 2 items, with a percentage of disclosure of 2.74%. The maximum value of disclosure is to be found in the annual report for the year 2007 that presents a total disclosure of 28 items disclosed over 73, with a percentage of disclosure that is equal to 38.36%.The total standard deviation for the annual reports is 10.24 for a percentage of 14.03%, which is still a relatively low number. This means that there is not a remarkable difference between the total data disclosed and presented in the various annual reports analyzed. From the total data collected, it is evident that the total level of disclosure for the annual reports of the year 2007 is extremely low. It is noticeable how the disclosure of the balance sheet and of the income statement is significantly higher than the one of the notes. The latter section is a particularly important part of the annual report, as it is the one which requires a higher number of items disclosed and is the one that gives information about the valuation method and the input value used to price an asset or a liability at fair value. Without clear information about the valuation methods it is impossible to understand if fair value has been applied correctly. The low levels of disclosure that can be observed by the total number of items disclosed in annual reports are particularly worrying.

The arithmetic mean of the percentage of disclosure is also particularly useful to signal the fact that the level of disclosure of the annual reports analyzed was insufficient. As a matter of fact, an arithmetic mean of 15.57 items disclosed for a disclosure percentage of 21.33% means that, on average, the disclosure of these companies does not even cover the half of the disclosure required by CAS 39.

The minimum value for the annual reports, which is of only 2 items disclosed out of 73 for a percentage of disclosure of 2.74%, is unbelievably low. It is also impressive to see that the maximum total value of disclosure for the annual report of the year 2007 is of only 28 items out of 73, with a percentage of disclosure that is only 35.62%, which is still lower than half of the disclosure required.In conclusion, from the results collected, it is evident that the level of disclosure for the annual reports for the year 2007 is very low. Let’s now move to the results obtained from the analysis of the annual reports for the year 2014, to see if there is an increase in the disclosure due to the issuance of CAS 39.

3.3 Results for year 2014

I hereby present the results for year 2014 in the following table. "Mean" refers to "arithmetic mean", "median" refers to "median value", "min" refers to "minimum value" and "max" refers to "maximum value". The data presented have been rounded to the second decimal place for practical reasons.

TABLE 2. DISCLOSURE CHECKLIST OF ANNUAL REPORTS FOR YEAR 2014

REQUIREMENTS FOR THE BALANCE SHEET	MEAN	MEAN%	MEDIAN	MEDIAN %	MIN	MIN%	MAX	MAX %	STANDARD DEVIATION	STANADRD DEVIATION %
1.Financial assets and liabilities from the portfolio	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
2. Quantitative information in tables	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
3. Assets and liabilities grouped properly	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
4. Distinction between recurrent and non-recurrent expenses	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
5. The opening balance and the reconciliation information	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
BALANCE SHEETS SUBTOTAL	3.55	4.86%	4	5.48%	3	4.11%	5	6.85 %	0.53	0.73%
REQUIREMENTS FOR THE INCOME STATEMENT	MEAN	MEAN%	MEDIAN	MEDIAN %	MIN	MIN%	MAX	MAX %	STANDARD DEVIATION	STANADRD DEVIATION %
6..If the transaction price is not consistent with fair value, the company must include related gains or losses, unless specified otherwise in the calculation guidelines	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
7..Quantitative information in tables	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
8.Total gains or losses for fair value displayed in current profit and loss	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
9. Disclose total loss or loss, and include in the current period the items of profit or loss when these gains or losses were recognized	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
10.Profit and loss items are gains and losses from changes in the fair value of related assets or liabilities	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
11.Total gains or losses of other comprehensive income in the current period and their recognition and comprehensive income items at the time of loss	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
INCOME STATEMENTS SUBTOTAL	6	8.22%	6	8.22%	6	8.27%	6	8.22 %	0	0

REQUIREMENTS FOR THE NOTES	MEAN	MEAN%	MEDIAN	MEDIAN %	MIN	MIN%	MAX	MAX %	STANDARD DEVIATION	STANDARD DEVIATION %
12.Use of fair value	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
13.Status and location of assets and liabilities	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
14.If assets or liabilities are calculated individually or in combination	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.63%
15.Assets and liabilities are valued in the current market at the measurement date	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
16.The transaction of the pricing is an orderly transaction	0.75	1.02%	1	1.37%	0	0	1	1.37 %	0.46	0.48%
17.The main market is the one where the majority of transactions take place	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
18.If the main market is not to be found, the most favorable one must be considered	0.37	0.51%	0	0	0	0	1	1.37 %	0.49	0.67%
19.The company must provide information on the reason why they chose a particular market	0.37	0.51%	0	0	0	0	1	1.37 %	0.49	0.67%
20. Disclose if an asset or a liability has more major or favorable markets	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
21. Market participants are independent from one another	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
22. Market participants are those buyers and sellers that trade in the principal market of the asset or of the liability concerned	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
23. Parties are familiar with the market and willing to undergo the transaction	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
24. The fair value at the time of initial recognition is equal to its transaction price	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
25. If the fair value at the time of initial recognition is not equal to its transaction price the company has to prove that market conditions were respected.	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
26. Estimates for the transaction are supported with sufficient and adequate data and information	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
27. Unobservable inputs are used when observable inputs are unavailable or impractical to use	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
28.Use transaction price as observable input when it comes to initial measurement, while valuation techniques based on unobservable inputs can be used in the subsequent measurement of fair value.	0.75	1.02%	1	1.37%	0	0	1	1.37 %	0.46	0.48%
29.Correct the valuation technique so that the confirmation result is equal to the transaction price	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
30.The technology used to measure fair value must not change and if this is not possible explanations are required	0	0	0	0	0	0	0	0	0	0
31. Changes in valuation estimates and valuation techniques	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
32. Descriptive information about input values used	0.75	1.02%	1	1.37%	0	0	1	1.37 %	0.46	0.48%
33. Companies must declare if they made adjustments to the quoted price of an asset or of a liability	0	0	0	0	0	0	0	0	0	0
34.Declare the use of bid meters to measure the asset position and use the asking price to measure the liability position	0	0	0	0	0	0	0	0	0	0

35. Use the first level input value, then the second level input value and finally the third level input value	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
36 The level of fair value used and why the second or the third level is used	0.62	0.85%	1	1.37%	0	0	1	1.37 %	0.52	0.71%
37. The input value of the first level must be the same as the value of assets or liabilities that can be obtained at the measurement date	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
38. The first level of input must be applied to the asset or liability without adjustment	0.75	1.02%	1	1.37%	0	0	1	1.37 %	0.46	0.48%
39. If enterprises own different assets or liabilities with similar characteristics, whose market quotation is active but difficult to obtain, they can separately price assets or liabilities at the measurement date and use other valuation models that do not rely solely on quotes	0.62	0.85%	1	1.37%	0	0	1	1.37 %	0.52	0.71%
40. When companies quote similar assets in active markets, they must divide the fair value measurement results into lower levels for adjustment	0.87	1.20%	1	1.37%	0	0	1	1.37 %	0.35	0.48%
41. When companies quote similar assets in active markets they need to disclose the input values and the relevance of the latter to similar assets or liabilities, the trading volume and the activity of the market where the input value can be observed	0	0	0	0	0	0	0	0	0	0
42. For related assets or liabilities that have to follow a specific period such as contract period, the second level input value must be observable for almost the entire period.	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%
43. Companies must consider that, if the internal data they are willing to use has industry-related characteristics, enterprises must make corresponding adjustments and disclose it	0	0	0	0	0	0	0	0	0	0
44. Determine whether the use of non-financial asset is permitted by the law ,physically possible and financially feasible	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
45. Judge non-financial assets from the perspective of the best use of market participants	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%
46. Companies must use single non-financial assets to generate maximum value	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%
47. If companies associate a non-financial asset with other assets, the asset must be sold to a market participant that uses the asset in the same combination	0	0	0	0	0	0	0	0	0	0
48. All the non-financial assets in the portfolio that are relevant for best use must be sold to a market that uses the asset in the same combination to maximize their value	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
49. When a company measures liabilities using fair value, it must assume that, on the measurement date, the liability is transferred to other market participants and it continues to exist even after the transfer. The market participants that receive the liability should perform their obligations related to the acquisition of the liability	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%

50. When an enterprise measures its own equity instruments at fair value, it must assume that these instruments are transferred to market participants and that these equity instruments will not cease to exist after the transfer. The new owner of these equity instruments, after the transfer, will assume corresponding rights and obligations	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%
51.For the second level of fair value enterprises must use as an example any observable market that presents liabilities and equity instruments that are similar to the ones that the company owns.	0.25	0.34%	0	0	0	0	1	1.37 %	0.46	0.48%
52. If there is a quotation of the liability or of the equity instrument at hand, the valuation at fair value of the liability and of the equity instrument must be determined on the basis of the value of the quotation	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
53..If a financial liability with specific characteristics is to be repaid, the fair value of the financial liability shall not be lower than the debt.	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
54. Declare if the industry manages funds based on the net exposure of specific market risks or specific counterparty credit risks	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
55. General exposure of assets or liabilities to specific market risk or specific counterparty credit risk	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
56. The effect of the net credit risk exposure of a particular counterparty	0.12	0.17%	0	0	0	0	1	1.37 %	0.35	0.48%
57. Relevant information explained	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
58. Relevant standards that require or allow the use of fair value	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
59. Descriptive information about valuation techniques used	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
60. Disclose the change of valuation policy	1	1.37%	1	1.37%	1	1.37%	1	1.37 %	0	0
61.For the third level of fair value measurement, when the unobservable input is changed and this may cause a significant change in fair value, the enterprise must disclose the relevant descriptive information	0.5	0.68%	0.5	0.68%	0	0	1	1.37 %	0.53	0.73%
62. If there is a correlation between observable input values and other unobservable input values used companies must describe this correlation and its impact	0	0	0	0	0	0	0	0	0	0
63. Considering financial assets and financial liabilities, it is assumed that changing one or more unobservable input values will result in a significant change in fair value, therefore companies must disclose the change of input values made, the impact of the change and the calculation method used	0	0	0	0	0	0	0	0	0	0
64. if the best use of non-financial assets is different from its current use, the enterprise must disclose this fact and the reason why it occurs	0	0	0	0	0	0	0	0	0	0

65.It must be disclosed if there is valuable regulation that allow or ask to continue to evaluate, in certain conditions, amounts at fair value, as well as the reason for this	0.62	0.85%	1	1.37%	0	0	1	1.37 %	0.52	0.71%
66.For the second level of fair value measurement, the enterprise must disclose descriptive information about valuation techniques and input values.	0.62	0.85%	1	1.37%	0	0	1	1.37 %	0.52	0.71%
67. For the third level of fair value measurement, the enterprise must disclose descriptive information about valuation techniques, input values, valuation processes and fair prices.	0.62	0.85%	1	1.37%	0	0	1	1.37 %	0.52	0.71%
68 For the second and third level of fair value, when changing valuation techniques, companies must disclose the change and also explain why the decision to change was taken.	0	0	0	0	0	0	0	0	0	0
69. Adjust the fair value measurement level at the relevant time	0	0	0	0	0	0	0	0	0	0
70. Accounting policies consistent in all accounting periods	0	0	0	0	0	0	0	0	0	0
71. When using the third level of fair value, use relevant quantifiable information about unobservable inputs	0	0	0	0	0	0	0	0	0	0
72.Third-party credit enhancement liabilities	0	0	0	0	0	0	0	0	0	0
73. Declare not to apply discounts or premiums arising to the large holdings of related assets and liabilities	0.37	0.5%	0	0	0	0	1	1.37 %	0.52	0.71%
NOTES SUBTOTAL	24.12	33%	28	38.36%	6	8.22%	35	45.5 %	8.59	11.77%
ANNUAL REPORTS TOTAL	33.75	46.23%	34.5	47.26%	16	21.92 %	45	61.65 %	9.05	12.40%

Source: data collected by the author of this final thesis

Let’s analyze now the disclosure level in the balance sheet for the annual reports of year 2014.

Therefore, I move on to the analysis of the balance sheet for the year 2014. The level of disclosure for this section of the annual report is satisfying, as all the requirements of CAS 39 have been respected, except two. As a matter of fact, it is easily observable that seven companies over eight have presented an opening balance with reconciliation information, while only one company over eight has made distinction between orderly and non-orderly transactions. The arithmetic mean of the number of items disclosed is 3.55, for a percentage of disclosure that is equal to 4.86%. The median value of requirements respected is 4, for a disclosure percentage of 5.48%. The minimum value of items disclosed by company is 3, with a percentage of disclosure that is equal to 4.11%. The maximum value of disclosure for the year 2014 is 5, with a disclosure percentage that is equal to 6.85%. The standard deviation is very low, namely 0.53 for a percentage of 0.73%.

Let's analyze now the disclosure level of the income statement for the year 2014. In this case, there is not much to comment as all the companies have complied to all the requirements of CAS 39. It is extremely positive to witness such an increase in the level of disclosure. In fact, the level of disclosure for the year 2007 was not bad, but the one for year 2014 is perfect.

Now it is time to analyze the information disclosed in the notes. It is important to underline that all the companies considered complied with requirement number 12 declaring their use of fair value to measure certain assets and liabilities. I also deemed that requirement number 57 was respected by all the companies as I have noticed that each one of them provided the essential information about the valuation techniques, the regulation and the input values used. Even requirement number 58 was respected by all the companies considered as every enterprise specified that they followed the requirements of CAS 39. For what concerns requirement 59, also in this case all the companies have followed the regulation and have disclosed the basic information on the valuation techniques and the input values used. Then, all the companies have also followed requirement number 60, as all of them have disclosed their change of valuation policy in the annual report.

Seven companies over eight have then respected the requirements number 15,26,27,35,37 and 40. Requirement number 15 could be defined as "the fundamental" requirement for the application of fair value. As a matter of fact, as remembered several times before, the pricing of assets and liabilities at fair value is valued in the current market at the measurement date. Declaring this, companies prove that they know how to apply fair value. Then, I have observed that requirement number 26 was by the majority of the companies considered as the estimates for the transactions at fair value are supported with sufficient and adequate data and information in seven companies over eight. This is also the case for requirement number 27, as seven companies over eight have declared that they only use unobservable inputs are used when observable inputs value is unavailable or impractical to use. This indirectly means that these companies give precedence to the application of the first level of fair value over the second and the third level of fair value, as the use of observable inputs for the valuation is typical of fair value. The latter affirmation is confirmed by the results concerning the disclosure of requirement 35. As a matter of fact, companies have declared that they give priority to the use of the first level of the fair value measurement when pricing an asset or a liability. Then, requirement 37 was respected by the majority of firms. As a matter of fact, requirement number 37 is a mandatory requirement of extreme importance that declares that the first level input value must be equal to the price of the asset or of the liability concerned at the measurement date. Furthermore, also requirement 40 has been highly respected by companies, as the data show. Even requirement 40 is particularly important, as it concern a fundamental technical request to calculate fair value correctly. As a matter of fact, requirement 40 asks companies to divide the fair value measurement results into lower levels for adjustment when they quote similar assets in active markets.

Four requirements have been disclosed by six companies over eight in the annual reports for year 2014, namely requirement number 16, number 28, number 32 and number 38. Number 16 concerns the concept of orderly transaction, which was not disclosed by any company for year 2007. This means that there has been a great increase in the level of disclosure of this item. An orderly transaction is a transaction that has a sufficient exposure to the market before the measurement date and that is not forced (such as, for instance, a liquidation). This is also a fundamental requirement that must be respected when writing annual reports, and the fact that its disclosure has increased is very positive. Then, there are requirements number 28, 32 and 38, which concern the inputs used for the valuation at fair value, the information that the latter must provide and how they should be used. Valuation inputs have a fundamental importance in the pricing of an asset or a liability at fair value, therefore the increase in their disclosure is a good sign that may imply that the calculation of fair value has increased also in its accuracy.

Five companies over eight have disclosed the following requirements: requirement number 36, requirement number 39, requirement number 65, requirement number 66 and requirement number 67. Requirement number 36 is particularly important, as it is fundamental to declare the level of fair value used and why the second or third level measurement has been chosen over the first one. The fact that five companies over eight have disclosed this information is a good sign, as the level of fair value is one of the most important pieces of information that a company can provide in the annual report. As observed for the annual reports of year 2007, companies still have the tendency not to disclose openly the level of fair value they use to valuate certain assets and liabilities, while they indirectly show it by giving information on the input values used. For instance, requirement number 39, 66 and 67 are about the second level measurement and the third level measurement. The fact that five companies over eight have disclosed these pieces of information means that, with all probability, these companies have also priced their assets and liabilities using the second and the third level measurement. Then, there is also requirement number 65, which is also particularly important as it is about the relevant regulation that allows to continue to evaluate an asset or a liability at fair value and why this asset or liability should be valued at fair value.

Half of the companies considered have then complied to requirement 13 (concerning the status and location of assets and liabilities priced at fair value), requirement number 17 (concerning the market in which the transaction occurs), requirements number 24, 29, 31(concerning the valuation techniques of an asset or a liability at fair value) and requirement number 61 (concerning the valuation techniques of an asset or a liability at fair value at using the third level measurement). It should be said that the status and location of the assets and the explanation of which is the main market deserve a higher level of disclosure as these requirements ask for the disclosure of fundamental information concerning the assets and the liabilities considered.

Then, three companies over eight have disclosed the pieces of information demanded by requirement number 18, 19 (concerning the choice of the main and most favorable market) and 73 (concerning the application of discounts and premiums). Still, there should be given more importance to information concerning the main and most favorable market of an asset or a liability priced at fair value. As a matter of fact, it is essentially the market price that is used as a basis to price the asset or liability concerned.

Only two companies over eight have complied to the disclosure of requirement number 14 (concerning the disclosure of the calculation of assets or liabilities individually or in combination), requirement number 42 (concerning the calculation of an asset or a liability that has to follow a contract period), requirement number 45 (concerning the concept of best use), requirement number 46 (concerning the calculation of non-financial assets), requirement number 49 (concerning the calculation of liabilities), requirement number 50 (concerning the use of equity instruments) and requirement number 51 (concerning the use of the second level of fair value measurement).

Just a company over eight has followed requirements number 20, 21,22, 23 (concerning the definition of the market and of the market participants),25(concerning the initial recognition at fair value of an asset or a liability),44 and 48 (concerning the use of non-financial assets estimated at fair value),53 (concerning the use of financial liabilities estimated at fair value), 52 (concerning the measurement of equity instruments and liabilities), 54,55 and 56 (concerning the management of risk). Still, it is disappointing to see that there is such a low level of disclosure for fundamental information about the market and market participants.

But also the requirements that have not been followed by companies have to be mentioned. As a matter of fact, requirements number 30 (changes in the technology of evaluation), number 33 (adjustments in the calculation of fair value), number 34 (use of bid meters to calculate at fair value an asset or a liability), number 41 (similar assets), number 43 (disclosure of industry-related data), number 47 (association of assets), number 62,63 and 64 (use of inputs values), number 68 (change in the valuation technique), number 69 (time in the valuation technique), number 70 (accounting policies), number 71 (third level of fair value) and 72 (third-party credit enhancements liabilities).

From the subtotal of the disclosure of the notes for the year 2014, the arithmetic mean of the disclosure of the notes is equal to 24.12 items, with a percentage of disclosure of 33%. The median value is of 28 requirements respected, for a disclosure percentage of 38.36%. The minimum value of items disclosed is equal to 6, with a percentage of disclosure of 8.22%. The maximum value is of 35 requirements followed, for a disclosure percentage that is equal to 45.50%. The standard deviation is quite low,8.59 items for 11.77% of disclosure, meaning that there is not a great difference between the values disclosed by each company for the year 2014.

The total values for the annual reports for year 2014 are the following: 33.75 as arithmetic mean of requirements resected (for a percentage of disclosure of 46.23%), 34.5 as median value of requirements followed (for a percentage of disclosure equal to 47.26%), 16 as minimum value of disclosure (for a percentage of disclosure of 21.92%),45 as the maximum value of disclosure (for a disclosure percentage of 61.65%) and 9.05 as standard deviation (for a percentage of 12.40%).

3.4 Comparison between the results for year 2007 and year 2014 and comment on the results

From the total data collected, it is evident that the level of disclosure for the annual reports of year 2007 is extremely low, while there is a noticeable increase of disclosure in the annual reports for year 2014. This means that the hypothesis of this research is confirmed.

Specifically, in the section of the balance sheet there has been an increase of the disclosure, even if small. As a matter of fact, the average number of items disclosed in the balance sheet for year 2007 is 3.14, with a disclosure percentage of 4.3% according to the arithmetic mean. About the median value, the value reported is 3, for a percentage of disclosure of 4.11%. The minimum value and its percentage are 0, while the maximum value is 5, for a disclosure percentage of 6.85%. The standard deviation is 1.57, for a disclosure percentage of 2.15%. On the contrary, the arithmetic mean of the disclosure of the fair value for the year 2014 is 3.55, for a percentage of disclosure of 4.86%, while the median value is 4 and has a percentage that is equal to 5.48%.The minimum value is 3 for a percentage of 4.11%, while the maximum value is 5 for a percentage of disclosure of 6.85%. The standard variation is 0.53 with a percentage of 0.73%. Comparing the results, it is evident that there has been a small increase in the disclosure of the balance sheets and that the levels of disclosure of 2014 are higher than those of 2007. This little increase is probably also due to the fact that the items that are to be disclosed in the balance sheet, as required by CAS 39, are only five, therefore there is a little margin for improvement.

From what can be inferred by the results collected from the income statements of the year 2007 and of the year 2014, the number of items disclosed has arisen in the year 2014. As a matter of fact, the arithmetic mean of disclosure for the year 2007 was 3.71, for a percentage of disclosure equal to 5.08%, while the median value is 5, with a percentage of disclosure of 6.85%. The minimum value is 0, while the maximum value is 6, for a percentage of disclosure of 8.22%. The standard deviation is 2.56 and has a percentage of 3.5%. In year 2014, all the enterprises considered have disclosed all the requirements of CAS 39. Therefore, from the results collected, it is evident that the level of disclosure of income statements for the year 2014 is higher as all the enterprises considered have disclosed all the pieces of information required for CAS 39. This means that there has inevitably been an increase in the disclosure of fair value after issuance of CAS 39.

The most impressive data are those emerged from the analysis of the section of the notes it is evident that the level of disclosure for the year 2014 is a lot higher than the one for the year 2007. As a matter of fact, the arithmetic mean of the number of the items disclosed in the notes of the annual reports of 2007 is only 8.43 for a disclosure percentage of 11.54%. This is nearly a third of the arithmetic mean of the disclosure of the notes for year 2014, which is 24.12, with a percentage of disclosure of 33%. The median value for year 2007 is 6, for a disclosure percentage equal to 8.22%, while the median value for year 2014 is 28, for a percentage of disclosure of 38.36%. The minimum value for year 2007 is of one item for a percentage of 1.37%, while the minimum value for year 2014 is 6, for a percentage of disclosure of 8.22%. The maximum value for year 2007 is 18, for a disclosure percentage of 24.66%, while the maximum value for year 2014 is 35, for a disclosure percentage of 45.50%. The standard deviation for year 2007 is 7.08 for a percentage of 9.7%, while the standard deviation for year 2014 is 8.59, with a percentage that equal to 11.7%. From the data collected, it is evident that the level of disclosure related to the section of the notes has increased. It is impressive to remark that, after the issuance of CAS 39, the arithmetic mean percentage of disclosure of the notes has increased by three times. It can be also observed from the fact that in year 2007 there were a lot of requirements that remained unattended (33, precisely), while for year 2014 thee were just 14 items that were not included at all in annual rereports. Moreover, it could be also useful to analyze the level of disclosure in the notes of the same company for the year 2007 and for the year 2014. All the companies that were analyzed in both years increased their level of disclosure in the notes for the year 2014, compared to the year 2007. This is another proof of the fact that companies increased their level of disclosure, possibly due to the introduction of CAS 39. As sustained before, the notes are a fundamental part of the annual report, especially because all the discursive information and the details concerning the use of fair value are to be contained there, not to mention the fact that the majority of the provisions listed in CAS 39 are to be applied in the notes. A higher disclosure level in the notes is therefore extremely significant to the valuation of the general disclosure and to the judgement of whether the issuance of CAS 39 has improved the disclosure of the use of fair value in annual reports. Moreover, the information that must be provided in the notes may also help knowing if the company is using fair value correctly, as they must use fair value just in some defined circumstances and use certain input values and give priority to the use of the first level of fair value. As this kind of information has increased in the annual reports, it seems legit to say that the accuracy of the use of fair value has also increased and that companies have proven to have a greater consciousness of what should be disclosed and about the methods are to be followed to apply fair value correctly.

Comparing the total results from the annual reports of year 2007 and year 2014, it is evident that the level of disclosure of fair value is higher in year 2014. The arithmetic mean for year 2007 is 15.57, for a disclosure percentage of 21.33%. The median value is 15, with a disclosure percentage of 20.55%. The minimum value is 2, with a disclosure percentage of 2.74%. The maximum value is 28, with a disclosure of 38.36%. The standard variation is 10.24, with a disclosure percentage of 14.03%. Concerning the results for year 2014, it can be observed that the arithmetic mean is 33.75, with a disclosure percentage of 46.23%. The median value is 34.5, with a percentage of 47.26%. The minimum value is 16, with a disclosure percentage of 21.92%. The maximum value is 45, with a disclosure percentage equal to 61.65%. The standard deviation is 9.05, with a disclosure percentage of 12.40%. All the companies that were analyzed in both years increased their disclosure level in the year 2014. It is impressive to see that the arithmetic mean of the disclosure of fair value for the year 2007 is less than half of the arithmetic mean for the year 2014. Moreover, the median value for the year 2007 is only 15.57, while for the year 2014 it is 33.75, meaning that there has been a great increase in the disclosure. Considering that the median value for the year 2007 is 15, it is even more impressive to see that the minimum value for the year 2014 is 16. This surely is another signal of the increase of the disclosure of fair value in the year 2014.

Therefore, it can be affirmed without any doubt that an increase of the disclosure of fair value has occurred in the year 2014. This could be a result of the change of regulation and of the issuance of CAS 39. The issuance of the latter has helped companies in the disclosure of information related to fair value, as this standard is the first one to provide a unitary set of rules to follow in order to know which are the pieces of information to disclose and what should be done in order to use fair value correctly.

As remarked by scholars such as Liu (2010), the need for a complete regulation about fair value was considered to be crucial to increase the quality of fair value accounting. This because it is evident that the issuance of guidelines could help improving the use and the disclosure of fair value. This suggestion appears to be correct, as with the issuance of CAS 39 the disclosure of information about assets and liabilities measured at fair value has increased.

Analyzing the results, it is easy to understand why the China Securities Regulatory Commission did not complain about the use of fair value and its disclosure by enterprises after 2013. But, as the data presented in this study clearly show, the level of disclosure suggested by CAS 39, at least in the year 2014, was still far. As a matter of fact, even if the total disclosure of annual reports increased without any doubt compared to year 2007, the data show very clearly that both the arithmetic mean and the median value for the year 2014 still have a low disclosure percentage. The latter is still less than a half than the one required by the standard. Of the eight companies analyzed, just three disclosed a number of items that was superior to half of the items required to be disclosed by CAS 39. This means that, even if the disclosure of fair value has increased thanks to CAS 39, companies still need to improve the level of disclosure of fair value.

The data resulting from this empirical study show how the use of fair value in China has improved with time and how the issuance of new and more precise regulation has had a fundamental role in its development. Anyway, it is important to remember that the use of fair value in China is still far from being optimal and there is still need for further improvement and for further theoretical research on the matter.

Conclusion

Fair value is a modern and highly reliable measurement method. It was first used in the United States and became widely used in Western countries, while it took a longer time to be successfully introduced in China.

This is because the measurement of an asset or a liability at fair value is essentially based on the prices that can be found in the market. As a matter of fact, fair value accounting, unlike historical cost accounting, uses current market values to estimate the value of the assets and liabilities considered. Fair value can therefore be defined as the price at which an asset can be sold or a liability can be settled in an orderly transaction to a third party under current market conditions (IFRS 13, 2011) (CAS 39,2014).

As underlined in the study, there are three levels of fair value. The first one bases the measurement on observable inputs concerning the asset or liability priced. These inputs are accessible to the entity that carries out the pricing on the measurement date. First level inputs values for fair value measurement can be therefore defined as the quoted prices of the asset or liability measured (such as stocks, bonds and so on). When measuring an asset at fair value, the priority in the use must be given to the first level. As a matter of fact, the use of observable input values is a lot more reliable than the use of unobservable ones (CAS 39,2014).

The second level of inputs of fair value are inputs other than quoted prices that are observable directly or indirectly for that asset or liability. Usually, these are quoted prices for similar assets or liabilities that can be therefore applied for assets and liabilities considered (CAS 39, 2014).

The third level of fair value measurement prices the assets and liabilities on the basis of unobservable inputs. The use of the third level of fair value is only allowed when observable inputs are not available. Needless to say, the regulation clarifies that priority must be given to the use of the first level of fair value as the third level is the one that can be considered as the less reliable one (CAS 39, 2014).

Fair value measurement appears to be particularly adequate to markets that are fully developed and provide some financial items, such as derivatives, that cannot be measured with other valuation methods other than fair value due to their intrinsic characteristics.

Nevertheless, the history behind the application of fair value measurement in China is long and difficult. In the period of time between 1997 and 2000 the first fair value reform was introduced, as three of the ten standards issued with this regulation were requiring the use of fair value to price certain assets and liabilities. Then, due to many accounting scandals that resulted from the illegal use of fair value, the new accounting standards issued in 2001 were requiring Chinese companies to only use historical cost for business affairs. Fair value was then reintroduced with the regulation issued in 2006, as 25 of these 38 new standards required or permitted the use of fair value accounting. Anyway, there were still some differences between the Chinese standards issued in 2006 and IFRS. For instance, the standards issued in 2006 forbade the use of techniques to evaluate fair value of investment properties and biological assets. This is because China has a less developed market economy and inadequate pricing methods to calculate non-financial instruments (Peng and Bewley, 2010).The second category of divergence occurs to prevent companies from cheating on the declaration of earnings. This is one of the main concerns of the Chinese Government, as it wants to avoid the speculation that occurred before 2001. For instance, CAS do not allow the change in accounting for investment property from a fair value model to a cost model (Peng and Bewley, 2010). The third category of divergence occurs as the Chinese Government refused to adopt the same requirements of IFRS when it believed that a certain issue had not been addressed well by International Financial Reporting Standards. This is why for business combinations under common control fair value is not applied in China (Peng and Bewley, 2010).The fourth category comprehends differences whose reason to exist has not been explained by Chinese authorities. This is the case of initial recognition of investment property, that is measured at fair value under IFRS but at cost or price under CAS (Peng and Bewley, 2010).

Then, as there was the need for a unique and precise standard on the use of fair value (Liu,2010), CAS 39 has been issued in 2014. It can be affirmed that the requirements of CAS 39 are almost exactly the same as the ones of IFRS 13. As a matter of fact, Zhou (2018), comparing the two regulations, has found out that they are extremely similar. As a matter of fact, they share the same title, the same definition of fair value, the main contents, the exceptions and the valuation techniques. Therefore, Zhou believes that it is legitimate to believe that the Chinese Ministry of Finance has chosen to adopt IFRS 13 (Zhou,2018).

Due to its technical superiority, fair value accounting appears to be reliable and user-friendly, as it helps providing information that could be extremely useful for stakeholders (Liu, 2010) (Barth, 2006). As a matter of fact, if fair value is applied correctly, it can easily convey the true value of an asset or a liability (Ge, 2007) and could be "the most significant indicator of a firm's performance" (Luan, 2008).This means that the decision to apply fair value is also good for increasing investments, as investors feel reassured and can gain better understanding when a financial statement features fair value. Investments are of fundamental importance for every company of the world, and China is not an exception (Liu, 2010).

Moreover, the implementation of the use of fair value could also be a way to prevent the illegal manipulation of profits, such as Liu and Zhang (2006) suggest. As a matter of fact, as expressed perfectly by Wang and Hu (2007), fair value is "not only relevant, but reasonably reliable"(Wang and Hu, 2007).

As the scholar Wang I. brilliantly affirmed in his article in 2006, "the application of fair value not only hastens the substantive step for international convergence of accounting standards but also symbolizes the development of our market economy". As Wang I. (2006) pointed out, the adoption of these new accounting standards clearly is a further step towards harmonization with IFRS, as these new standards have undeniable similarities with the international ones. This is also the belief of Ge (2006), who sees the adoption of fair value as a signal that the globalization of accounting standards is becoming a reality, even in China. According to Liu (2007), the new accounting standards also provide a solid basis to help the harmonization of Chinese accounting standards with international ones.

The adoption of fair value, as a matter of fact, was also a way for China to express its willingness to conform to international standards and a proof of its endeavor to develop its economy (Liu, 2010). It is therefore right to consider fair value not just a mere instrument for financial measurement, but also an effective political tool. As China was trying to make a new start and to have more international commercial transactions, the adoption of fair value was instrumental to do so. Fair value evaluation is not just technically advanced and adequate to evaluate profit correctly, but also good for international commercial relations.

Undeniably, standardization has always favored financial exchanges between different Countries. As a matter of fact, international firms feel safer since China has decided to apply fair value accounting, as now income statements appear to be clearer and easily understandable (Liu,2010). This is why it can be affirmed that the convergence of the Chinese accounting standards and the reintroduction of fair value has helped the development of the Chinese capital market, as Jiang and Zhang point out (2007). The main political reasons behind the reintroduction of fair value therefore appear to be the will to establish a market-oriented economic system, the need to support the "reform and opening up" policy that China started to adopt under Deng Xiaoping and carried onto these days, the convenience of harmonizing national accounting standards with international ones, the preference of financial capital and the need to favor the strengthen of the Chinese capital market, which is sensitive to the type of information disclosed (Zhang and Andrew, 2016).

Unfortunately, there are also many obstacles to the use of fair value in China. Many accountants, as emerged in the interviews by Yang, Clark, Wu and Farley (2018), believe that the Chinese market is not active enough to apply fair value, as the market should be able to provide a great volume of quoted prices to proceed with the measurement of the first level of fair value. In fact, they prefer to apply the historical cost method to price assets and liabilities rather than fair value measurement.

There are also other obstacles that prevent Chinese companies from using fair value in the right way, such as the complexity of its use, the low education level of accountants, the high audit cost and the low control of competent authorities over the behavior of companies. Another aspect that could increase the negative prejudice against fair value is the fact that it has been wrongly believed that the use of fair value measurement could be one of the causes of the global financial crisis that started in 2007.

To overcome the troubles that prevent companies from using fair value correctly, scholars have given many suggestions.

Generally, scholars believe that the more knowledge and information about fair value is available and the more it will be possible to find solutions to problems linked with the wrong use of fair value and the more it will be possible to intervene against its illegal use (Xiao and Hu, 2017).

It is especially important to keep studying how fair value works and to keep up with new valuation methods. As a matter of fact, the characteristics of assets and liabilities measured at fair value may change with time, and consequently there should be a constant research on which new valuation methods that could be more appropriate to measure new instruments (Xiao and Hu, 2017).

It is also important that companies build good relationships with accounting firms and that they invest on the education of their own accountants (Chen,2018) (Liu,2010).

It is proven that the capabilities and the skills of numerous accountants are limited. There are two ways to solve this problem: the first one is to help accountants providing specific training and enhancing the quality of the education that they receive and the second is to improve guidelines to help them do their work at best (Zhang L.,2018).

There should also be a higher control over enterprises to avoid any critical situation. It is moreover necessary that authorities do not stop controlling strictly companies in order to prevent the manipulation of profit and to correct the mistakes done when evaluating an asset or a liability at fair value (Liu,2010).

As sustained by a great number of scholars (Liu,2010) (Zhang L., 2018) (Yang, Clark, Wu and Farley, 2018) the major weapon against fraud is the control of the competent authority and the issuance of norms that could tighten and regulate the supervision in the use of fair value measurement.

Companies must be urged to use fair value correctly, to follow an impeccable operational behavior and to produce reliable accounting information. In order to do so, regulation covers a crucial role, as sometimes coercive measures are fundamental to ensure the correct behavior of companies. Not just new laws must be approved, but also the existing regulation should be implemented, in order to create a legal environment that could discourage all kind of illegal behavior (Liu,2010) (Zhang L.,2018).

It is evident from the findings by the China Securities Regulatory Commission, by Xiao and Hu (2017), by Qu and Zhang (2015) and by Liu and Wang (2009) that during the years 2007 and 2013, that the fair value measurement of assets and liabilities at fair value in the annual reports of the period of time that goes from 2007 to 2013 in companies did not follow the requirements of standards for what concerns the actual measurement method and the disclosure.

To overcome the problem of poor performance when pricing assets and liabilities and low disclosure level in annual reports lots of scholars suggested the issuance of new regulation (Liu,2010).

As there are no empirical studies nor critical reports on the use of fair value accounting since 2014, it is legitime to wonder whether it is just a coincidence that the fair value disclosure and measurement of securities and futures enterprises has not been criticized since the year of the issuance of CAS 39.

The problem of disclosure of fair value was expected to be overcome with the issuance of CAS 39 in 2014, but, as the data that I have collected have shown, this is not the case. Certainly, the disclosure of fair value has increased in the years and the issuance of CAS 39 has helped in this process, as the level of disclosure for the year 2007 appear to be generally a lot lower compared to the level of disclosure for the year 2014. As a matter of fact, a great progress in terms of disclosure has been observed when comparing the disclosure of annual reports for year 2007 and year 2014. Therefore, it can be affirmed that the issuance of CAS 39 has determined an increase in the disclosure of fair value in annual reports.

But it is evident that the data that resulted from the analysis of the financial statements of the enterprises for the year 2014 is still too low. As a matter of fact, just three companies out of eight disclosed more than half of the items required by the regulation for year 2014. Moreover, the arithmetic mean of items disclosed in the annual reports for the year 2014 is of 33.75 units for a disclosure percentage of 46.23%, while the median value of disclosure is 34.5 for a disclosure percentage of 47.26%.This results therefore evidently display the fact that there is still a huge gap between the “optimal” level of disclosure and the actual level of disclosure of companies. This data is even more worrying if it is taken into account the fact that all the companies considered operate in the financial sector, where the use of fair value is essential and where there should be a higher expertise in the application and the disclosure of fair value.

Therefore, it is true that the disclosure of fair value increases with the issuance of new accounting standards, but this change does not appear as significant as expected when comparing the annual reports of year 2007 and year 2014. It is then evident that there is still a long way to the total disclosure of all the items prescribed by CAS 39. Hopefully, the disclosure of fair value in annual reports by Chinese firms has further increased nowadays and will continue to increase in the future, as the correct use of fair value has multiple repercussions on the accuracy of accounting information and on the choices made by stakeholders.

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