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# Implementation Costs of IFRS 9 for Non-Financial Firms: Evidence from China

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# Key research findings

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- Scope
  - Chinese non-financial listed companies
  - 2016-2019
  - Adoption of IFRS 9
    - Dual listed companies: 2018
    - Other companies: 2019
- Key research findings – implementing IFRS 9 imposes ‘severe implementation costs’
  - Alters companies’ behavior – significant increases in selling of AFS equity investments after the announcement of the new Standard
  - Significantly increases the audit fees

# Contributions

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- The authors contribute to literature by examining the implementation costs of IFRS 9 in China, an important setting
- The paper provides evidence of implementation costs arising from IFRS 9, particularly on the increased use of fair value measurements for equity investments and the non-recycle requirement of OCI
  - The research will contribute to the PIR of IFRS 9
- The paper also enriches the literature on the economic consequences of applying specific accounting standards
  - Whether accounting will encourage or discourage long-term investment?

# Suggestions and questions (1)

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- Whether the implementation cost increase solely came from IFRS 9?
  - IFRS 15 also became effective on 1 January 2018
  - IFRS 16 became effective on 1 January 2019
- What's the motivations or reasons of bigger sale of AFS equity investments after the announcement of the new financial instruments standard:
  - Is it really because of the new accounting standards? Are there economic incentives behind it? China's stock market performance in 2017 and 2018
  - Examine the composition of the AFS equity investments which were sold (and which were/are held)
    - For-sale assets or for-dividends assets?
    - Level 1, Level 2 or Level 3 assets?

## Suggestions and questions (2)

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- Whether the audit fee increases are simply due to the implementation of IFRS 9?
  - Examine and compare the audit fee increases of dual listed companies and domestic listed companies in 2018
  - Examine the average audit fee growth rate in recent years, particularly those of dual listed companies
- Whether it is possible to examine the benefits of implementing IFRS 9 and compare them with the implementation costs?
  - Changing from AFS equity investments to FVTOCI
    - Reduce the earnings management
    - Improve the transparency
    - Better reflect the investment purpose, strategy and its performance
  - Full cost-benefit analysis - Include financial entities

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