



Accounting Standards and Capital Market Development in China

Past, Present and Future
-- A Time Line Story

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History of Accounting

The first forms of accounting emerged during **Shang Dynasty** (1500-1000 B. C.)

Accounting developed and auditing started to come to the fore in the period 700-800 B. C



History of Accounting

Around the end of 19th century and at the beginning of 20th century.

China experienced a period of reforming its traditional accounting system.



History of Accounting

Around the end of 19th century and at the beginning of 20th century.

At the same time, factories, stores and companies with large scale and modern structure adopted Western double-entry bookkeeping system.



History of Accounting

In 1949, the People's Republic of China was founded.

China mainly adopted accounting theory, practice, and system from former Soviet Union at first.



History of Accounting



China started its economic reform and opening up policy from 1978.

Everything regarded as modern starts then, not only the accounting standards, but also China's capital market.

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ONE

TIME LINE

accounting standards
VS
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01

CAPITAL MARKET
Sprouting period
(1978-1992)

01

Accounting Standards
Preparation period
(1978-1992)

1978

- Winter of 1978
- 18 farmers
- Xiaogang Village, Fengyang County, Anhui province
- less than 100 words **"life and death contract"**
- initiated the epoch-making household responsibility contract system
- witnessed the birth of shareholding township enterprises
- indicating the taking shape of early form of shareholding economy in China



- December 18-22, 1978
- the Third Plenary Session of the Eleventh Central Committee of CPC
- historically and officially swift China's focus on economy construction
- reform and open up



- In September 1978
- the State Council amended and issued Regulations on the Responsibility and Authority of Accountants
- regulated the professional title and relevant details of the accountants **for the first time** in the form of administrative regulations **at the state level**

1979

- On January 1, 1979
- China and U.S officially established diplomatic relationship
- after President Nixon's historical visit in 1972



- On January 1, 1979, under the approval of the State Council, the Ministry of Finance **restored** the **department of accounting system**.
- In the year of 1979, China **restored** the recruitment of graduates pursuing **master's degree majoring accounting**.

1979

- On December 26, 1979, the founding conference of the **Accounting Society of China** was held.
- And the academia for the first time initiated the concept of “**Accounting Administration**” ,
- discussed the scientific attribute of accounting and its function, accounting administration, cost accounting and profit distribution, and the establishment of China's accounting system.
- **Accounting Research**, the very first magazine on accounting theory was issued.

1980

- In April and May 1980, China restored its position in **International Monetary Fund and World Bank.**



The World Bank



- On September 18, the Ministry of Finance issued ***Accounting System for State-owned Enterprises in Industrial Sectors-Accounts and Accounting Statements***

1980

- On January 8, 1980, the **Accounting Society of China** was officially established.
- In December 1980, the Ministry of Finance issued **Interim Provisions on the Establishment of Accounting Advisory Division**, indicating the restoration of public accountant profession in China.

1980

- In July 1981, China restarted its government bonds issuing, last time issuing was 23 years ago, from 1954 to 1958, and a total of 3.554 billion yuan.



Government bonds

- The basic features:
 - long bond period (10 years) and non-negotiable
 - lower interest payment for enterprise investors
 - higher interest payment for personal investors.

- The reissuing of government bond awakened the sense of investment of the Chinese people.

1981

- On January 1, 1981, the very first accounting firm in New China

Shanghai Certified Public Accountants

1981

1981

- On November 2, the Accounting Society of China established “**the Research Group on the Standardization of Accounting Terms**”

1982

- Since 1982, some enterprises but with limited number voluntarily issued raised funds from the public or within the enterprises and paid interest, marking the emerging of initial enterprise bonds in China.



Enterprise bonds

1982

- In May 1982, **the State Commission for Restructuring the Economic Systems** was formed,
- Some small-sized state-owned enterprises as well as collectively owned enterprises carried out various pilot shareholding programs, which initialized **the first form of shares**.

- In May 1982, after reformation of the Ministry of Finance, the Department of Accounting Systems was renamed as the

Department of Accounting Administration

1982

1983

- On February 22, the first member meeting of **Ad Hoc Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting** was held in Headquarters of United Nations, New York,
- China dispatched its delegates, Mr. Lou Er'xing, professor of Shanghai University of Finance and Economics, to attend the meeting.

1983

- On March 1, the Ministry of Finance issued the ***Accounting System for Sino-Foreign Joint Ventures*** (*Trial Draft*).
- On April 24, the State Council approved and issued ***Report on the National Profit to Tax Work Conference and Interim Methods on Profit to Tax of State-owned Enterprises***.

1984

- On October 20, 1984, the Third Plenary Session of the Twelfth Central Committee of CPC passed **Decision on Economic System Reform**.
- Tasks, nature, guiding principles and policies of economic system reform focusing on urban areas were promulgated, and for the first time the socialist economy was described as planned commodity economy based on the public ownership.

1984

- Upon the pass of the Decision, the State promulgated various reform measures on fundamental system of enterprise
- One of the most effective measures, restructuring of an enterprise to a limited liability company by share, and financing and being listed in the proposed capital market.

1984

- From 1984 to 1986, cities such as **Beijing, Guangzhou, and Shanghai** etc. chose some enterprises to carry out the **pilot shareholding program**, including the famous Beijing Tianqiao Department Store and Shanghai Feilo Acoustics.



- 中国人民银行上海市分行 1989 年 2 月 21 日 (89) 沪人金股字 1 号文批准



1984

- On March 5, 1984, the State Council issued ***Regulation on Cost Management for State-owned Enterprise.***
- On June 1, the Ministry of Finance and the State Archives Administration jointly issued ***Administrative Measures on Accounting Archives.***

1985

- On February 18, 1985, the CPC Central Committee and the State Council decided to initiate the **Coastal Economic Opening Area** in Yangtze River Delta, Zhujiang River Delta, and Xiamen, Zhangzhou and Quanzhou Delta.

1985

- On January 1985, the **Accounting Law**, regarded as the constitution of accounting work in China, was promulgated and came into operation from **May 1, 1985**.

1985

- As one of the major reform and opening up policies from 1978, the Chinese government set various policies and regulations to encourage the establishment of foreign invested.
- To meet the needs and enhance regulation of these foreign invested enterprises, the Ministry of Finance started to draft accounting system for them, and finally issued **Accounting System for Sino-Foreign Joint Ventures** on March 4, 1985.

1985

- **seven major breakthroughs:**

1. clarification of some generally accepted accounting principles such as accrual basis, matching, separation of capital expenditure and revenue expenditure;
2. classification of accounts in accordance with the five accounting elements: assets, liabilities, capital, cost, and profit and loss;
3. adoption of three basic financial statements meeting international practice: the balance sheet, income statement, statement of changes in financial position;
4. additional disclosure of “accounting of capital invested” to clarify the difference of capital and liabilities;

1985

- **seven major breakthroughs:**

5. reflection of possible losses caused by the market price decline of inventories in the financial statements, as well as the adoption of accelerated depreciation under the approval of taxation authorities;
6. calculation of cost of products based on the concept of manufacturing cost, and the inclusion of selling expenses and administration expenses into current period profit and loss;
7. auditing requirement of financial statements by Chinese CPAs.

1985

- In 1985, the State Council issued ***Provisional Regulation on Depreciation of Fixed Assets for State-owned Enterprises.***

1986

- Since 1986, the carrying out of pilot shareholding reform by more and more enterprises led to the formation of China's primary stock market.
- On November 14, 1986, when John J. Phelan Jr., chairman of NYSE, visited China, Mr. Deng Xiaoping gave him a certificate of share of Shanghai Feilo Acoustics Co., Ltd. as an official gift.



1986

- And Mr. Phelan went to Shanghai and completed the transfer procedures, and became **the first foreigner owning Chinese shares since 1949**. The certificate of share was still well kept in NYSE.



1986

- On October 11, 1986, the State Council issued ***Regulations on the Promotion of Foreign Investments.***
- Up to the end of 1986, enterprise bonds issued, which lack of relevant regulations, totaled 10 billion yuan.

1986

- On July 3, 1986, the State Council issued ***Regulation on Certified Public Accountants***, setting requirements on examination, registration, business scope and service rules, and coming into operation since October 1.
- On October 29, 1986, the Ministry of Finance issued ***Provisional Administrative Regulation on Accounting Firms***.

1986

- On December 23, 1986, the Ministry of Finance issued ***Rules on Costing Accounting for State Owned Enterprises in Industrial Sectors.***
- Except ***Accounting System for Sino-Foreign Joint Ventures***, all these regulations or systems maintained basic features of uniform accounting systems designed for planned economy.

1987

- In March , 1987, the State Council issued ***Provisional Regulations on the Administration of Enterprise Bonds.***
- The September 1987 witnessed the birth of **China's first specialized securities company**- Shenzhen Special Economic Zone Securities Company.

1987

- On August 28, 1987, the **Accounting Society of China** held its annual meeting, confirmed the necessity of making and promulgating of accounting principles or accounting criteria.
- Two study groups, the **Accounting Reform Study Group** and the **Enterprise Financial Reform Study Group**, initiate the study on accounting standards, offering important theoretical support for the later accounting reform.

1988

- On March 18, 1988, the State Council issued **Notification on Enlarging the Scope of Coastal Economic Opening Area**, 140 cities and counties were newly included.
- The State Council continuously opened up cities along rivers and borders, as well as inland and provincial capital cities, forming a multi-level, multi-channel, and comprehensive opening map.

1988

- From April 1988 on, authorities gradually approved 7 cities to launch government bond transfer business between individuals.
- In June 1988, such transfer markets spread to 54 cities in 28 provinces.
- By the end of 1988, the government transfer markets spread all over China.
- Such government bond transfer markets using OTC trading were regarded as **the original secondary market of bonds**.

1988

- In 1988, the Central Bank established 33 securities companies in different provinces.
- At the meantime, the fiscal system also established a batch of securities companies as well.
- Those companies were **the earliest securities companies** in China, and their main operation were government bonds.



1988

- During the First Session of the Seventh National People's Congress in the March and April 1988, the Constitutional Amendment was approved, and **private sector** was recognized by the Constitution as supplement to socialist public sector, and the State protected the legal rights and interests of the private sector; also the **Law of Sino-Foreign Contractual Cooperative Enterprises** and the **Law of Wholly State-owned Industrial Enterprises** were also approved.

1988

- In 1988, the Ministry of Finance established a **Panel on Accounting Standards**. The panel, together with two study groups of the Accounting Society of China held meetings, published research articles and reform proposals which **formed the basis for the major reform in China's accounting system in 1992.**
- On November 15, 1988, approved by the Ministry of Finance, the self-discipline professional body - **the Chinese Institute of Certified Public Accountants**, was formed in accordance with international practices.

1989

- On January 6, 1989, the **Study Group of Accounting Principles and Accounting Basic Theory** initiated by the Accounting Society of China held a symposium on accounting principles in Shanghai.
- Various discussions were carried out on questions regarding to the meaning and nature of accounting principles, relationship between accounting principles and accounting systems, internal structure of accounting principles, and the thoughts on accounting principles study and the promulgating institution etc.

1990

- In 1990, both **Shanghai Stock Exchange** and **Shenzhen Stock Exchange** were approved to establish.
- In March 1990, the **pilot IPO program** was approved to be carried out in Shanghai and Shenzhen, and the two cities respectively promulgated administration measures on share issuing and share trading.



1990

- On November 26, 1990, **Shanghai Stock Exchange**, the very **first** stock exchange operated in mainland China since 1949, established.



1990

- On December 19, 1990, **Shanghai Stock Exchange** officially opened.
- Trading started at 11 o'clock in the morning of the 19th day of December, 1990, and Mr. Li Xiangrui, the Director General of Shanghai Stock Exchange, authorized Mr. Wei Wenyuan to knock the gong indicating the opening of the exchange.



1990

- In October 1990, **Zhengzhou Grain Wholesale Market** opened and introduced futures trading mechanism, and remarking the beginning of China's futures trade.



1990

- Upon the establishment of Shanghai Stock Exchange, the investors' demands for the protection of their interests, and the disclosure of accounting information in accordance with modern enterprise system by listed companies were higher and higher.
- For the purpose of standardization of the listed companies' financial information disclosure, Shanghai Stock Exchange pioneered reform in accounting systems, and requested the listed companies to provide investors with “analysis of assets, liabilities and shareholders' equity structure” and “analysis of operation results”, to reflect the listed companies assets, liabilities, income and profit, on the premise of no changing of the accounting systems adopted.

1990

- Also upon the establishment of Shenzhen Stock Exchange, the five companies listed in the stock exchange set up **accounting systems** adapting to the operation of limited companies by shares in accordance with international conventions since their establishment, and both the content and format of the financial statements were quite close to those generally accepted internationally at the moment.

1991

- At the end of 1991
 - 8 listed companies and 25 members in Shanghai Stock Exchange
 - 6 listed companies and 15 members in Shenzhen Stock Exchange
- members were basically trust investment companies and their securities departments, and securities companies.

1991

- On April 4, 1991, Shenzhen Stock Exchange started its issuing of **SZSE Composite Index**, taking April 3, 1991 as the base period at 100 points;
- on July 15, 1991, Shanghai Stock Exchange started its issuing of **SSE Composite Index**, taking December 19, 1990 as the base period at 100 points.

1991

- On July 29, 1991, the Ministry of Finance issued ***Accounting Reform Outline (Trial)***, stating the overall objective of the accounting reform in China:
 - A. gradually building-up of managerial accounting focusing on the improvement of economic benefits, strengthening internal management, and the improvement of the management mechanism of the entities;

1991

- On July 29, 1991, the Ministry of Finance issued ***Accounting Reform Outline (Trial)***, stating the overall objective of the accounting reform in China:
 - B. progressively realizing of management mechanism taking accounting laws and regulations as main body, with combination of legal, administrative, and economic means, and being good to the improvement and strengthening of macro control, as well as giving full play to the enthusiasm and creativity of local, departmental and grassroots accounting units; and establishing of accounting information center to reform the current management mechanism with diversity and using with their own purposes in accounting information.

1991

- On August 14, 1991, the Ministry of Finance and the State Statistical Bureau issued ***Notification on Further Strengthening the Management of Accounting Statements and Statistical Statements.***

02

CAPITAL MARKET

Formation and preliminary development of a national market

(1992-1998)

02

Accounting Standards

Dual-norm period

(1992-2005)

A year of significance.

- During his historical inspection tour to major cities in south China from January 18 to February 21, 1992, **Mr. Deng Xiaoping** delivered his famous talks, which clearly answered many important cognitive questions confusing people's thoughts for a long time.
- The talks liberated people's mind and pushed **reform, opening up and modernization to a new stage.**

- For capital market, there were famous remarks by Mr. Deng Xiaoping, quoted as follows: "**Securities, stock market, whether on earth good or not, whether dangerous, or unique to capitalism, or can be used by socialism, wait-and-see is allowed, but try is a must. If we see it right, carry out for a year or two, if it goes well, loosen the control; if it goes wrong, correct it, and just shut it down. It can be shut down quickly, or slowly, or with a little tail left. What you are afraid of, we just insist on our own position, and we won't make big mistakes.**"

- Right after the talks, in 1992, the State Commission for Structural Reform, the State Planning Commission, the Ministry of Finance, the Central Bank, and the Production Office of the State Council jointly issued ***Measures for Pilot Shareholding Enterprises***.
- An unprecedented upsurge of shareholding reform sprung up all over the country, a large number of limited companies by shares established by means of directional raising were born, and legal person shares and internal employee shares were issued.

- The Securities Management Office of the Central Bank, established in May 1992, was the first institution to exercise unified supervision over the securities market.
- In July 1992, the State Council established the Securities Administration Meeting System to exercise administration for the securities business on behalf of the State Council.

- The State Council established the Securities Commission of the State Council and the China Securities Regulatory Commission (CSRC) in October 1992;
- and issued ***Notification of Further Strengthening the Macro Administration of Securities Market***, thus a unified administrative system for the securities market by the central government was established.

- **On December 28, 1992, China's government bond futures trading in the stock exchange was ignited for the first time.**
- **Number of listed companies at the year end of 1992, 53; and market value at the year end of 1992, 104.813 billion yuan.**

- On January 1, 1992, Shenzhen Municipal Government promulgated ***Accounting Standards for Business Enterprises of Shenzhen Special Economic Zone (Trial)***.
- On February 26, 1992, the Ministry of Finance hosted the International Conference on Accounting Standards in Shenzhen.

- In 1992, Shanghai Stock Exchange summarized the report indicators of listed companies prepared in accordance with different accounting systems, and converted them into a unified "**balance sheet**" and "**income statement**" suitable for the limited liability company by shares.

- On June 25, 1992, the **Ministry of Finance and the State Commission for Restructuring Economy** jointly issued ***Accounting System for Pilot Shareholding Companies***, which were implemented since January 1, 1992.
- This is a **milestone** in the development of China's accounting system.

- On the basis of fully considering the practical characteristics of China's pilot shareholding enterprises, the system introduced some internationally accepted accounting treatment methods, to report the existing capital through the recognition and measurement of assets, liabilities and shareholders' equity; and to report the increase of capital through the recognition and measurement of operating income, expenses and profit, and carried out a series of reforms and adjustments to the accounting system:

1. Changed the situation that various bookkeeping methods coexist under the original system, and the debit and credit double entry bookkeeping method was adopted in a unified way.
2. Made a breakthrough in the goal of accounting for enterprises, from meeting the needs of national macro-economic management, expanding to the needs of understanding the financial situation and business results of enterprises in all aspects, as well as the needs of strengthening internal business management of enterprises.

3. Put forward the basic principles of accounting, including matching principle, accrual basis principle, actual cost principle, and the principle of dividing income expenditure and capital expenditure, etc.
4. Required to classify assets and liabilities according to liquidity, and distinguish current assets and long-term assets, current liabilities and long-term liabilities.
5. Adhering to historical cost valuation, for shares and bonds that can be realized at any time and were ready to be realized at any time, if there was a market price, it was required to indicate the closing market price in the relevant items of the balance sheet; for other shares and bonds that have a market price, it was also required to indicate the closing market price in the relevant items of the balance sheet; for investment with shareholding proportion more than 50%, equity method were required.

6. Strengthened the accounting of shareholders' equity and made clear that the net assets of the enterprise belong to shareholders. Shareholders' equity included share capital, reserve fund (surplus reserve and capital reserve), collective welfare fund, undistributed profit, etc. The system specified the profits available for distribution by shareholders and the sequence of profit distribution.
7. Required the enterprise to determine the cost accounting method suitable, and specify the accounting method of expenses according to its production and operation characteristics and management requirements.

8. Defined the principle of revenue recognition, which requires that the revenue from the sale of goods to be recognized when the goods had been issued, the ownership of the goods had been transferred from the seller to the buyer, and the payment for goods had been received or the receipt of payment for goods had been obtained.
9. Stipulated that the pilot shareholding enterprises to be audited by certified public accountants the annual financial statements and accounting accounts of the enterprises and be issued audit reports thereafter.
10. In addition to the accounting treatment as a going concern, circumstances as liquidation and dissolution were also stipulated.

- In 1992, for the purpose of meeting the need of mainland China registered companies to be listed in Hong Kong, the Ministry of Finance issued ***Supplementary Regulations on Some Accounting Treatments for Pilot Shareholding Enterprises Listed in Hong Kong on the Bases of Accounting System for Pilot Shareholding Companies***, and stipulated the accounting treatments for 11 aspects including foreign exchange operations, provision for doubtful debts, and inventories etc., most of the practice were internationally recognized.

- On November 30, 1992, the Ministry of Finance issued ***General Rules on Financial Affairs of Enterprises and Accounting Standards for Business Enterprises***, to be implemented since July 1, 1993.
- Following these two basic documents, financial systems as well as accounting systems of various industries were issued and implemented successively.
- On December 31, 1992, the Ministry of Finance issued ***Accounting System for Business Enterprises in Industrial Sector***.

- On November 14, 1993, the Third Plenary Session of the Fourteenth Central Committee of CPC approved ***Decision on Several Issues Regarding the Establishment of Socialist Market Economy System***, outlined the basic structure, and determined that market played a fundamental role in resource allocation under the macro-control.

Overseas listing.

- In June 1993, the pilot program of enterprises registered in mainland China to be listed in **Hong Kong** was carried out, and both international securities and investment community responded actively, and invested enthusiastically.
- After that, more and more mainland China enterprises were listed in Hong Kong, and gradually in the United States, the United Kingdom, and Singapore etc.

- Number of listed companies at the year end of 1993, **183**
- market value at the year end of 1993, **353.101 billion** yuan

- The implementation of ***General Rules on Financial Affairs of Enterprises*** and ***Accounting Standards for Business Enterprises*** in 1993 realized the transformation of the accounting mode of enterprises, from that adapting to the traditional planned economy system to that adapting to the socialist market economy system:
 1. Established the concept of capital and capital maintenance, and laid foundation for capital accounting of limited liability company by shares;
 2. Established the concept of recoverable value through measurement of accounts receivable by making provision for bad debts at certain proportion (usually 0.3%-0.5% of the book balance), which is the prototype of the subsequent standard to determine the provision for impairment;

3. Defined the concept of accounting elements - assets, liabilities, owner's equity, income, expense and profit, and the enterprise was determined as an independently operated entity, which provided a technical basis for fully reflecting the capital investment and operating profit of shareholders;
4. Changed the coexistence of various bookkeeping methods and unified the method into debit and credit bookkeeping method;
5. Reformed the reporting system and adopted the internationally accepted system, such as replacing the balance sheet with the fund balance.

- On July 15, 1993, the Ministry of Finance issued ***Notification of the Supplementary Provisions on Accounting Treatment of Listed Companies***, determined that "for companies listed on overseas stock exchanges outside Hong Kong and companies issuing foreign shares in China, the accounting complied with relevant accounting treatment regulations of companies listed in Hong Kong".
- On October 31, 1993, ***Law of Certified Public Accountants*** was promulgated and to be implemented since January 1, 1994.

- On July 4, 1994, the State Council issued ***Special Provisions on Overseas Share Raising and Listing of Limited Liability Companies by Shares.***

- On December 12, 1994, the Ministry of Finance held an **International Conference** on accounting standards to discuss the latest issues in the international accounting and how to establish China's accounting standards system in Shanghai.

- In August 1995, Isuzu Auto Co., Ltd. and Itochu Co., Ltd. acquired 40.02 million legal shares (accounting for 25% of the total share capital) of "Beijing Station Wagon Co., Ltd." by agreement, becoming the largest shareholder, which was the **first case** a foreign investor becoming the largest shareholder of a listed company in China through acquiring legal shares through agreement.
- Right after the case, some **Sino-foreign joint ventures** were listed in China.

- In July 1995, CSRC was accepted as **full member** at the 21st annual meeting of International Organization of Securities Commissions (IOSCO).

- From October 24 to 27, the Ministry of Finance hosted the Fourth National Accounting Conference. **Mr. Zhu Rongji**, China's Vice Premier at that time, put forward three "rules and regulations" for rectifying the order of accounting work:
 - all enterprises and institutions must set up accounts according to law, and ensure the order of accounting work and the quality of accounting information;
 - train and improve the political quality, professional ability and ethics of accountants and CPAs;
 - the finance authorities were responsible for the strengthening of the national accounting work through regulation, system, training and supervision.

- In February 1995, for the purpose of meeting the need of group listing and consolidated financial statements, the Ministry of Finance promulgated *Interim Provisions on Consolidated Financial Statements and Format of Consolidated Financial Statements for Pilot Shareholding Enterprises*, regulating the preparation scope and consolidation methods etc., which were the **first** regulations on consolidated financial statements in China.

- The price of “**Qiong Minyuan**”, a listed company with its full name as Hainan Modern Agricultural Development Co., Ltd., soared from 4.45 yuan at July 1, 1996 to **20** yuan in several months, due to optimistic performance outlook.

- On January 31, the Ministry of Finance issued the first batch of ***Guidelines for Practice of Chinese Certified Public Accountants (Trial)***.

- From March 11 to 22, 1996, the Ministry of Finance held two consecutive international seminars on accounting standards in Beijing.
- International Accounting Standard Committee (IASC) sent representatives to the seminars.

- The 1996 annual report of “**Qiong Ming Yuan**” showed its net profit increased **1290.68 times** at year-on-year bases, and the company was investigated for making false financial statements and its shares were suspended from trading since March 1, 1997.
- According to the investigation of CSRC, of the 571 million yuan profits mentioned in the 1996 annual report, 566 million yuan, that is, 99% of the profits of 1996, were fictitious, which were made up through related party transactions that were in lack of criteria of disclosure.

- In November 1997, the reform of China's financial system further defined the principles of separate operation and management of banking, securities and insurance business.
- The interbank bond market, established by the Central Bank in 1997, was an intangible market based on China Central Depository and Clearing Corporation as its platform, dominated by institutional investors and traded by agreement.

- The **Asian Financial Crisis** broke out.
- Number of listed companies at the year end of 1997, **745**
- market value at the year end of 1997, **1,752.923 billion** yuan

- On May 22, 1997, the Ministry of Finance issued ***Accounting Standard for Business Enterprises – Disclosure of Related Party Relationship and Transactions***, to be implemented since January 1, 1998 by listed companies, the very first detailed accounting standard in China, maybe more was a reaction to the “**Qiong Ming Yuan**” case, also marking the start of the promulgation of detailed standards in the following years.

- In April 1998, the **Securities Commission of the State Council** was revoked, and all its functions and the regulatory functions of the Central Bank on securities institutions were transferred to **CSRC** at the same time.
- On April 22, 1998, the Shanghai and Shenzhen stock exchanges announced **special treatment (ST)** to be carried out for the stock trading of listed companies with abnormal financial or other conditions.
- By the end of 1998, there were **90** securities companies and **2,412** securities business departments in China. Other service institutions engaged in securities business were also developing, including **107** accounting firms, **286** law firms and **116** asset appraisal institutions engaged in securities business.

- On March 27, 1998, the establishment of **Fund Kaiyuan** and **Fund Jintai** marked the birth of the first **batch of fund management companies** in China.
- The Asian Financial Crisis lasted, and China fought back in the exchange war in Hong Kong. The financial crisis became an important opportunity for Asian developing countries to deepen reform.

- Number of listed companies at the year end of 1998, **851**
- market value at the year end of 1998, **1,950.594 billion** yuan.

- On January 27, 1998, the Ministry of Finance issued ***Accounting System for Limited Liability Companies By Shares – Accounts and Statements***, implemented since January 1, 1998, to, as the notification of the Ministry of Finance said, strengthen the accounting work in shareholding companies, and protect the interests of investors and debtors.

- From March to June 1998, the Ministry of Finance issued **eight specific accounting standards** for business enterprises, including revenue, cash flow statement, events after the balance sheet date, debt restructuring, investment, construction contract, accounting policy, accounting estimate change and accounting error correction, non-monetary transactions, to be implemented by listed companies from January 1, 1999.
- Those standards, drawn on the international accounting practices, also introduced some new ideas, made the accounting standards of China's capital market further converge with the international practices.

- On October 12, 1998, the Ministry of Finance established **China Accounting Standards Committee (CASC)**, with the Vice Minister as its first chair, and the Director of the Department of Accounting of the Ministry of Finance as its first secretary.

03

CAPITAL MARKET

Further standardization and development

(1998-Present)

02

Accounting Standards

Dual-norm period

(1992-2005)

1999 //

- On July 1, 1999, the **Securities Law** came into effect and confirmed the capital market in the form of law. China's capital market entered a new stage of standardized development.
- Since July 9, 1999, Shanghai and Shenzhen stock exchanges initiated "**Particular Transfer**" service for listing suspended shares due to such as three-consecutive-year losses or other reasons in accordance with the **Company Law** and the **Securities Law**.
- In 1999, Xia Hai Fa (Xiamen Marine Fishery Development Co., Ltd.) became the **first ST share**.

- On March 5, 1999, Premier Zhu Rongji pointed out in his **Government Work Report** at the second session of the Ninth National People's Congress to strengthen financial and cost management, establish a unified national accounting system, and fight against fraud.
- **The Accounting Law**, revised in 1999, required the accounting data to be true and complete, and established the accounting principles of enterprises.

- On June 28, 1999, the Ministry of Finance issued the ***Accounting Standard for Business Enterprises – Non-monetary Transactions***, to be implemented from January 1, 2000.
- The year of 1999 also witnessed the replacing of the final account examination and approval system by government authorities to the financial report audit system by accounting firms.

2000 //

- In December 2000, **China Futures Association**, a non-profit self-regulatory organization for China's futures business, was established in Beijing.
- To honor its commitment to access to WTO, the Chinese government start to reorganize wholly state owned banks, insurance companies, and securities firms in shareholding companies, and have well-known international financial giants as strategic investors of those reorganized Chinese financial institutions, and then get IPO in domestic and international markets.

2000 //

- To facilitate the process, CSRC issued disclosure rules required those financial institutions to provide to investors two sets of financial information: one as a statutory one based on Chinese accounting standards, and audited by local accounting firms, and the other as a supplementary information based on internationally accepted accounting standards, and audited by internationally well-known accounting firms.

2000 //

- These rules not only helped those Chinese financial institutions to quickly finish their reorganization process, but also drastically improve their financial reporting and internal control system toward internationally accepted standards.
- There were also debatable voices on the introduction of dual-auditing system for listed financial institutions. Opponent believed different standards adopted by different auditors may cause confusion to investors, and bring extra burden to those listed financial institutions.

2000//

- Based on the basic requirement in China's Company Law and Securities Law, CSRC redesigned its disclosure framework for companies issuing securities publicly in capital market in 2000.
- This had profound impacts on enhancing the quality of information provided by listed companies, but also had profound impact on accounting standard-setting, and the convergence process of Chinese accounting standards towards international accepted ones.

2000 //

- Number of listed companies at the year end of 2000, 1,088
- market value at the year end of 2000, 4,809.094 billion yuan.

- On June 21, 2000, the State Council issued the ***Regulations on Financial Report for Business Enterprises***, which was the first regulatory document applicable to all enterprises in New China.
- On December 28, 2000, the Ministry of Finance issued the ***Accounting System for Business Enterprises***, to be implemented by listed companies since January 1, 2001.
- The system covered all enterprises except financial insurance sector and small enterprises, and was regarded as a major measure to establish an accounting system that suitable for China's situations.

- ***The Accounting System for Business Enterprises*** was formulated based on ***the Accounting System for Limited Liability Company by Shares*** and the specific accounting standards issued, considering the implementation in those companies, the definition of accounting elements, and the requirements of accounting internationalization. The system had the following characteristics:
 1. Reflected the principle of unity. Except the finance and insurance sector as well as small enterprises, all enterprises were covered by the system, and the distinguishing of specific sectors was no longer considered. The system basically unifies the recognition and measurement criteria of the assets, liabilities, owner's equity, as well as the revenue and expenses etc.

2. Reflected the quality characteristics of accounting elements. The system follows the definition of accounting elements in the Regulations on Financial Report for Business Enterprises, and provided unified recognition and measurement criteria for assets, liabilities, revenue, expenses, etc. All properties not meeting the definition of assets were not to be recognized; in case of impairment, provision for asset impairment was made to reflect the asset's ability to bring economic benefits to the enterprise. Compared with Accounting System for Limited Liability Companies By Shares, provision of impairment for fixed assets, intangible assets, designated loans and construction in progress were something more in the system.

3. Coordinated with tax laws and regulations. The selection of relevant accounting policies in the system was to be consistent with the tax law as far as possible on the premise of not violating the general principles of accounting and the principles of accounting elements recognition and measurement. However, due to the different principles between accounting and taxation, the system also allowed tax adjustment in case of inconsistency.

- Upon the provision for impairment requirement for eight categories of assets, the decrease of net assets of listed companies and the doubts of market participants about the accounting information of listed companies aroused to a certain extent.

2001 //

- On November 10, 2001, the Fourth Ministerial Conference of the World Trade Organization (WTO), held in Doha, Qatar, considered and adopted the decision of China's accession to the WTO by consensus. On December 11, China officially became a member of the WTO, and entered a new stage of opening up.
- After China's accession to the WTO, China's capital market began to introduce qualified foreign institutional investors (QFII), while joint-venture securities companies and joint-venture fund management companies also developed rapidly.

2001 //

- On April 25, 2001, CSRC issued Q&A for Information Disclosure Criteria of Companies with Public Share Issuing No. 1 – Non-recurring Profit and Loss.
- After the regulation, "net profit after deducting non-recurring profit and loss" became a financial index with equal importance to net profit to a large extent.
- PT Narcissus became the first delisting company in 2001.

- On January 18, 2001, the Ministry of Finance issued three specific accounting standards for intangible assets, borrowing costs and leases, revised five specific standards for cash flow statement, debt restructuring, investment, non-monetary transactions, accounting policies, changes in accounting estimates and correction of accounting errors, to be implemented since January 1, 2001.
- In November, 2001, the Ministry of Finance issued another three specific standards: interim financial report, fixed assets, and inventory, to be implemented since January 1, 2002.

- On June 22, 2001, the Ministry of Finance issued Standard for Internal Accounting Control - Basic Standard (Trial) and Standard for Internal Accounting Control - Monetary Funds (Trial), as the supporting measures of the accounting law and the objective requirements after China's accession to the WTO.
- On November 27, 2002, the Ministry of Finance issued Accounting System for Financial Institutions, to be implemented by listed financial in since January 1, 2002.

2002 //

- Establishment of joint venture securities and futures institutions. In 2002, CSRC issued the Rules for the Establishment of Securities Companies with Foreign Investment and the Rules for the Establishment of Fund Management Companies with Foreign Investment. And Shanghai Stock Exchange and Shenzhen Stock Exchange respectively issued the Interim Provisions on Overseas Special Member Administration.
- In December 2002, the QFII system was implemented to allow approved foreign institutional investors to invest in China's capital market while the RMB capital was not fully convertible.

- On March 5, 2002, Premier Zhu Rongji made important instructions on accounting work in his government report at the Fifth session of the Ninth National People's Congress, including promoting the convergence of accounting systems for business enterprises and international accounting practices; accelerating the development of accounting profession; strengthening cost management; cracking down on false accounting; rectifying accounting firms and other intermediary service organizations; establishing credit files of enterprises, intermediaries and individual person etc.

2003 //

- Social security funds officially invested in the capital market in 2003.

- On November 7, 2003, Mr. Chen Yugui, Secretary General of China Institute of Certified Public Accountants (CICPA), was elected as the board member of the International Federation of Accountants (IFAC). This is the first time that a China representative held a position in the highest decision-making body of IFAC.

2004 //

- In 2004, the State Council issued Several Opinions on Promoting the Reform, Opening up and Stable Development of the Capital Market in 2004.
- In May 2004, with the approval of the State Council and the approval of CSRC, Shenzhen Stock Exchange approved the establishment of small and medium-sized enterprises board (the SME board) in the main board market, an important supplement. In June 2004, eight companies were listed on the SME board for the first time.

2004 //

- By the end of 2004, the total share capital of China's listed companies was 714.9 billion, of which 454.3 billion were non-tradable shares, accounting for 64%, and of all the non-tradable shares, 74% were state-owned shares.

- On April 27, 2004, the Ministry of Finance issued Accounting System for Small Enterprises, to be implemented since January 1, 2005.
- On October 19, 2004, the Ministry of Finance issued Accounting System for Non-profit Organizations, to be implemented since January 1, 2005.

03

CAPITAL MARKET

Further standardization and development

(1998-Present)

03

Accounting Standards

Continuous Convergence Period

(2005-Present)

2005//

- In September 2005, China's first asset securitization product "Unicom Income Plan" was listed and traded.
- Local bureaus of CSRC, stock exchanges and futures exchanges, and China Depository and Clearing Co., Ltd. (CSDC) all set up accounting professional technical groups in 2005.
- The year of 2005 also witnessed the settlement the split share structure.

- The split share structure was caused by many historical reasons.
- It was a special problem in the process of the transition from planned economy to market economy. From the late 1980s to the early 1990s, the state-owned enterprises in China were reformed to establish a modern enterprise system. In order to raise funds in the capital market without losing the controlling right of the state-owned enterprises, incremental issuance of shares was adopted, that is, on the basis of the original shares of state-owned enterprises, additional shares were issued at a premium, and the original shares became non-tradable shares, which were not able to be circulated in the stock exchange.

2005 //

- On April 29, 2005, under the leadership of the Party Central Committee and the State Council, CSRC launched the reform of non-tradable shares.
- On August 23, 2005, with the approval of the State Council, CSRC, State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the Ministry of finance, the Central Bank and the Ministry of Commerce jointly issued the Guiding Opinions on the Reform of the Non-tradable Shares of Listed Companies; on September 4, CSRC issued the Administrative Measures for the Reform of the Non-tradable Shares of Listed Companies, and the reform of the non-tradable shares of China entered a comprehensive stage.

2005 //

- Number of listed companies at the year end of 2005, 1,381; and market value at the year end of 2005, 3,243.028 billion yuan.

- A year of significance for China Accounting Standards
- The Chinese government made a brave decision on China's accounting standard setting in 2005, that is, to keep accounting standard as the only major norm for accounting and financial reporting by business enterprises. Different from the previous period, IFRSs were selected as the only basis for the Chinese accounting standards to be converged with.
- Mr. Wang Jun, then Vice Minister of Ministry of Finance, and Secretary-General of CASC, highlighted the key thoughts on international convergence of accounting standards, which are worth sharing:

1. Convergence is a symbol of advancement, and the future direction. It reflects the need of economic globalization. Countries not willing to isolate itself from the process of economic globalization should not ignore but try their best to actively participate in this process.
2. Convergence is not equal to the same. Countries in the world may differ in terms of economic environment, legal system, cultural background, regulatory capability, quality of user and preparers of financial information, etc. Hence, we should keep in mind these kinds of differences in the process of international convergence of accounting standards, to ensure that the convergence process would not result in empty concepts and colorful articles.

3. Convergence is a process. The achievement of this process would rely on the willingness from countries with those differences to cooperate. To find generally accepted technical standards, the stakeholders participating in the process have to work actively and continuously to inquire into new environment, to solve new issues, and to explore new mechanism. It would be evolutionary process to seek common ground while putting aside, narrowing down, and eliminating differences.
4. Convergence is an interaction among IASB and its stakeholders. Convergence would not be a one way endeavor. It needs IASB and its stakeholders to communicate ideas, to learn each other, and to seek general acceptance via various bilateral or multilateral channels. Only to work in such a way would enhance the effectiveness and increase the impact of the convergence process.

- Under his leadership, staff from the Ministry of Finance exerted near one year's tremendous efforts to draft the revised basic accounting standards and 38 detailed accounting standards, with the support from industries, accounting profession, academia, and related government agencies all over the nation and a group of IASB Board members and senior technical staff.
- On November 8, 2005, Vice Minister Wang Jun, representing CASC, and Sir David Tweedie, then IASB Chairman, representing IASB, signed a Joint Statement, declaring:

- Both parties agree that establishing and improving a single set of high quality global accounting standards is the logical consequence of the trend of economic globalization.
- China stated that convergence is one of the fundamental goals of their standard-setting program, with the intention that an enterprise applying China Accounting Standards (CASs) should produce financial statements that are the same as those of an enterprise that applies IFRSs.

- How to converge with IFRSs is a matter for China to determine. The IASB notes that, in converging their national standards with IFRSs, some countries add provisions and implementation guidance not included in IFRSs to reflect the circumstances of those countries. This is a pragmatic and advisable approach with which China agrees.
- China's accounting standards system for business enterprises is being developed with a view to achieve convergence of those standards with the equivalent IFRSs. The IASB applauds and expresses admiration for the enormous progress already made toward convergence.

- Differences between CASs and IFRSs still exist at the moment on a limited number of matters, including reversal of impairment losses, disclosure of related party relationships and transactions, and accounting for certain government grants. Both parties agreed to work to eliminate those differences as quickly as possible.
- The IASB identified a number of accounting issues for which China, because of its unique circumstances and environment, could be particularly helpful to the IASB in finding high quality solutions for IFRSs. These include disclosure of related party transactions, fair value measurements and business combinations of entities under common control.

- The CASC and the IASB agreed to continue to meet periodically and strengthen the exchange and co-operation between the two parties, to achieve convergence of the ASEBs with the IFRSs.
- Increase participation in IASB's governance and standard setting process.
- Before 2005, China only had its representative in IASB' advisory council. In 2005, Mr. Liu Zhongli, former Minister of the Ministry of Finance, then President of CICPA became the first trustee from China.
- In 2006, The trustees of IASC Foundation appointed Mr. Zhang Weiguo, then Chief Accountant and International Director of CSRC, as IASB' first Board Member from China.

- In 2010, IASB' Interpretation Committee had the first representative from China.
- China became founding member of Accounting Standards Advisory Forum in 2011.
- Chinese professional experts also participated in various IASB working groups including impairment, financial instrument, insurance, IFRS for SME, XBRL, etc.

- Finally, China was added to IFRS Foundation's Monitoring Board. To fulfill its responsibility and honor its commitment, China has gradually increased its fund contribution to the organization, and has become one of the biggest contributors in recent years.
- All these help China to convey its concern and views to IASB, and help the Chinese stakeholders understand more how IFRSs have been developed, both of which will help enhancing the acceptance of IFRSs in China, and effectively implement converged Chinese standards.

2006 //

- In 2006, the revised Securities Law and Company Law were implemented simultaneously. In the same year, the sixth amendment to the Criminal Law was issued, and damaging the interests of listed companies and the use of entrusted property under the circumstance of breach of trust were to be sentenced to criminal penalty.
- In September 2006, China Financial Futures Exchange was established in Shanghai, to launch financial derivatives.
- In 2006, China Galaxy Futures and ABN AMRO jointly established the first joint-venture futures company in China, marking the formal entry of foreign institutions into the Chinese futures market.

2006 //

- In order to assist the listed companies to realize a smooth connection of the new and old accounting standards, CSRC issued Notice on the Disclosure of Financial Accounting Information Related to the New and Old Accounting Standards in 2006, and Q&A for Information Disclosure Criteria of Companies with Public Share Issuing No. 7 – Preparation and Disclosure of Comparative Accounting Information During the Transitional Period of New and Old Accounting Standards in 2007 respectively, provided guidance for listed companies with the preparation of financial statements and information disclosure during the transitional period.
- Number of listed companies at the year end of 2006, 1,434; and market value at the year end of 2000, 8,940.389 billion yuan.

- On February 15, 2006, the Ministry of Finance published the revised Basic Accounting Standards and 38 detailed accounting standards (Accounting Standards for Business Enterprises, ASBEs). These standards became effective in listed companies, some major financial institutions in 2007.
- It should be emphasized that except for EU countries, Australia, South Africa, Hong Kong, and New Zealand, which fully adopted IFRSs in 2005, China was the first big countries to take decisive and concrete step towards full convergence with IFRSs.

- Compared with the original accounting standards and accounting systems, the ASBEs changed the traditional method of integrating recognition, measurement, recording and reporting, stipulated in the form of accounts and statements, and placed recognition, measurement and reporting as the main body of the standard system. Generally speaking, the ASBEs were more rigorous in both structure and level, mainly including four relatively independent and interrelated contents, namely, basic standards, specific standards, application guidelines and interpretations, and became a unified technical specification as a whole. From the perspective of accounting standard setting, the followings of standard system were adjusted:

1. Considering the concept change of international standards setting. The choice of accounting policies gradually shifted from the income statement to the balance sheet, reflecting in the recognition and measurement of assets and liabilities. Examples include provision for impairment loss and recognition of deferred income tax assets and liabilities.
2. Considering China's economic environment and market characteristics and moderately introduction of fair value. In view of the decision-making relevance of fair value to the users of accounting information, fair value was widely used in international accounting standards. While fair value was only employed in China on those financial assets, investment real estate, and biological assets etc. with conditions. Compared with IFRSs, the restrictions on use of fair value were stricter and more cautious.

3. Considering the ownership structure and transaction characteristics of Chinese enterprises, accounting policies different from international standards were adopted for some specific transactions. For example, in view of the large number of state-owned enterprises in China, disclosure burden would be far too heavy if simply introducing the definition of related parties in the international standards; examples also included the business combination under common control non-reversing of provision for impairment loss of long-term assets etc.
4. Based on the basic accounting principles, the accounting treatments of some specific transactions were adjusted to meet the requirements of the internationally accepted accounting practices. Examples included non-monetary assets exchange, debt restructuring, government subsidies and other transactions, considering the impact of the inflow of economic benefits brought by transactions on the income statement and equity. After the adjustments, there was no difference on the same transaction between the accounting treatments home and abroad.

- International convergence and principle orientation were the most significant characteristics of ASBEs.
- In November 2005, CASC and IASB signed a joint statement on the convergence of accounting standards, confirming that ASBEs and IFRSs achieved substantive convergence. The overall structure and specific items of the ASBEs were consistent with IFRSs to a certain extent. There were only differences in the aspects of the reversal of long-term asset impairment loss and the identification of related parties, etc.

- On May 12, 2006, CASC and the Hong Kong Institute of Certified Public Accountants (HKICPA) held a meeting in Hong Kong on the convergence of accounting standards between the mainland and Hong Kong.
- A joint statement between Mainland China and Hongkong pointed out that the international convergence of accounting standards was an inevitable requirement to adapt to the development trend of economic globalization, and the mainland and Hong Kong made substantial progress in the international convergence of accounting standards in recent years. The statement confirmed that ASBEs in mainland China achieved substantial convergence with Hong Kong Financial Reporting Standards (HKFRSs), and the two sides further should strengthen exchanges and cooperation in accounting standards in the future, and work together to improve the global high-quality IFRSs.

2007 //

- In 2007, CSRC established a Chief Accountant Joint Meeting System. The joint meeting was called by the CSRC Chief Accountant, and the members came from 12 internal departments of CSRC, as well as Shanghai and Shenzhen stock exchanges.
- At the beginning of 2007, the SSE Composite Index started from 2728 points, the lowest of the year 2007, and soared to peak at 6124 points on October 16.

2007 //

- Number of listed companies at the year end of 2007, 1,550; and market value at the year end of 2007, 32,714.1 billion yuan.

- ASBEs were implemented by listed companies and some financial institutions.
- On November 16, 2007, the Ministry of Finance issued ASBE Interpretation No. 1, which clearly stipulated 10 issues, such as the review of relevant amount on the first implementation date, the recognition conditions of equity instruments, the accounting treatment of derivatives in embedded insurance contracts or embedded lease contracts, and the holding of non-current assets for sale.

- In 2007, mainland China and Hong Kong realized the equivalent mutual recognition of accounting standards, and exchanged the progress of standards setting and international convergence in a timely manner every year to maintain the continuous convergence of accounting standards between the two places. The continuous convergence of accounting standards in the two places was conducive to reducing the cost of preparing financial statements for enterprises to finance in the capital market of the other side, creating a good accounting environment for enterprises in mainland China to "go global", as well as the smooth operation of the Shanghai Hong Kong stock connect and Shenzhen Hong Kong stock connect, and promoting the common development of the capital market of the two places.

2008 //

- In September 2008, the international financial crisis triggered by the U.S. subprime crisis in 2007 broke out in an all-round way.
- On October 7, 2008, the Standing Committee of the Political Bureau of the CPC Central Committee heard reports on the international financial crisis and the measures to be taken.
- On November 5, 2008, the State Council held an executive meeting to study and deploy measures to further expand domestic demand and promote steady and rapid economic growth.
- From December 8 to 10, 2008, to maintaining growth, the Central Economic Work Conference proposed measures such as expanding domestic demand, accelerating the transformation of development mode and structural adjustment, deepening the reform of key areas, and improving the level of opening up, and people's livelihood.

2008 //

- In 2008, the State Council issued the Regulations on the Supervision and Administration of Securities Companies and the Regulations on the Risk Disposal of Securities Companies.
- In January 2008, China's first precious metal futures - gold futures was listed on the Shanghai Futures Exchange.

- On May 22, 2008, the Ministry of Finance, CSRC, China National Audit Office (CNAO), China Banking Regulatory Commission (CBRC) and China Insurance Regulatory Commission (CIRC) jointly issued the Basic Standard for Internal Control for Business Enterprises to be implemented since July 1, 2009 by listed companies, requiring listed companies to disclose annual internal control self-assessment reports, and encouraging listed companies to engage auditors to audit the effectiveness of their internal control.
- On November 10, 2008, the Ministry of Finance issued the Notice on the Establishment of Accounting Information Committee, which was chaired by Mr. Wang Jun, Vice Minister of the Ministry of Finance.

2009 //

- On October 23, 2009, the GEM board held its opening ceremony. Data showed that the average PE ratio of the first batch 28 GEM board companies was 56.7 times, much higher than the overall PE ratio of all listed companies as well as that of SME board.
- October 30, 2009, the GEM board officially opened.

2009 //

- On November 4, 2009, IASB issued the newly revised IFRS 24 - Related Party Disclosure, which basically eliminated the differences between IFRS and ASBE.

2010//

- In April 2010, the first stock index futures, CSI 300 index contract, was listed, which was of great significance in the development history of financial derivatives in China.
- Number of listed companies at the year end of 2010, 2,063; and market value at the year end of 2010, 26,542.259 billion yuan.

- On April 2, 2010, the Ministry of Finance issued the Road Map of Continuous Convergence between ASBEs and IFRSs. According to the road map, ASBEs would continue to converge with IFRSs, and the timing of the continuous convergence would keep pace with the progress of IASB, so as to complete the revision of relevant projects of ASBEs by the end of 2011.
- In 2010, IASB revised IFRS 1 - First Adoption of IFRSs through annual improvement projects, allowing companies that issue shares for the first time to record the revaluation price determined in the process of restructuring and listing as "recognized cost" and make retroactive adjustment. This effectively solved the problems caused by assets revaluation in the process of restructuring and listing of Chinese enterprises.
- The Hong Kong Stock Exchange allowed mainland China companies listed in Hong Kong to use ASBEs.

- Following the release of the Basic Standard for Internal Control for Business Enterprises in 2008, the Ministry of Finance, CSRC, CNAO, CBRC and CIRC jointly issued the Supporting Guidelines for Internal Control of Business Enterprises on April 26, 2010, including 18 application guidelines, 1 evaluation guideline and 1 audit guideline, which provided specific operation guidelines for the establishment of internal control system. Since then, the system of internal control standards including the basic standard and supporting guidelines formed the earliest standards guiding the listed companies to establish and improve the internal control mechanism.

- On December 10, 2010, the Audit Recommendation Committee organized by Ministry of Finance and CSRC, together with Hong Kong Stock Exchange issued press releases simultaneously, announcing 12 mainland large accounting firms were approved to engage in the audit of H-share enterprises with financial statements prepared under ASBEs, using China Standards on Auditing.

2011 //

- On January 12, 2011, the implementation of the first batch of general classification standards of ASBEs was launched.
- On October 18, 2011, the Ministry of Finance issued Accounting Standards for Small Enterprises.

- Standard setting:
- The revise of ASBEs started. In order to implement the road map of continuous convergence of ASBEs and IFRSs, on the basis of in-depth study and summary of problems and achievements in the process of implementation and convergence, the Department of Accounting of the Ministry of Finance carried out the revise and improvement of ASBE system:
- a. improving ASBE system, which consisted of basic standards, specific standards and explanations, and the specific standards were divided into main body, application guide and drafting statement, laid foundation for future development and improvement;

2012//

- Standard convergence:
- a. Completing the final equivalence of China European Union (EU) accounting standards. In April 2012, both sides officially announced that ASBEs were equivalent to IFRSs adopted by EU and vise-versa.
- b. Continue the follow-up work equivalent to the HKFRSs through meetings.
- c. Exploring the accounting standard equivalence between China and the United States using mechanisms such as China US strategic and economic dialogue.

- On October 29 2012, the Ministry of Finance issued the Provisions on the Connection of Issues Related to the Implementation of the Accounting Standards for Small Enterprises, which made requirements on the revision of internal accounting methods, the inventory of assets and liabilities, the conversion and the adjustment of accounts, and the transformation of accounting information system for small enterprises implementing the new standards for the first time.

2013//

- On November 12, 2013, the Third Plenary Session of the 18th Central Committee of the CPC passed the Decision on Several Major Issues of Comprehensively Deepening Reform. The overall goal of deepening the reform in an all-round way was to improve and develop the socialist system with Chinese characteristics and to modernize the national governance system and capacity. The core issue of economic system reform was to deal with the relationship between the government and the market, so that the market plays a decisive role in resource allocation and better play the role of the government.

2013 //

- According to statistics, among 180 H-share companies listed on the Hong Kong Stock Exchange in 2013, 40 were audited by 11 mainland accounting firms, an increase of 3.5 times over 2009, accounting for 22% of the total number of H-share companies; in 2013, H-share accounting firms engaged in the audit of H-share companies received 2 billion yuan as remuneration, accounting for 10% of the total revenue of H-share accounting firms.

- The system of ASBEs further improved. EDs of three newly drafting standards including Fair Value Measurement, Joint Arrangement, and Disclosure of Interest in Other Entities, and five revised standards including Financial Instruments: Presentation, Presentation of Financial Statements, Long-term Equity Investment, Consolidated Financial Statements, and Employee Benefits, completed the public comment, and basically completed the implementation guidance for corresponding standards.

2014 //

- On October 23, 2014, the Fourth Plenary Session of the 18th Central Committee of the CPC passed the Decision on Several Major Issues of Comprehensively Promoting the Rule of Law, pointing out that the overall goal of comprehensively promoting the rule of law is to build a socialist legal system with Chinese characteristics and a socialist country ruled by law.
- On November 11, 2014, the 22nd APEC informal meeting of leaders was held in Beijing. President Xi Jinping delivered speeches, advocating the establishment of an Asia Pacific Partnership with mutual trust, tolerance, cooperation and win-win results. The meeting decided to launch the Free Trade Area of the Asia-Pacific (FTAAP) process.

2014 //

- On November 17, 2014, the "Shanghai Hong Kong Stock Connect" was officially launched.
- On December 2, the CPC Central Committee and the State Council issued the strategic plan for the construction of the Silk Road Economic Belt and the 21st century Maritime Silk Road.
- Number of listed companies at the year end of 2014, 2,613; and market value at the year end of 2014, 37,254.7 billion yuan.

- In 2014, the Ministry of Finance issued the revised ASBEs
- ASBE-Basic Standard
- ASBE 2 –Long-term Equity Investment
- ASBE 9 – Employee Benefits
- ASBE 30 - Presentation of Financial Statements
- ASBE 33 - Consolidated Financial Statement
- ASBE 37 - Financial Instruments: Presentation
- and newly drafted ASBEs
- ASBE 39 - Fair Value Measurement
- ASBE 40 - Joint Arrangement
- ASBE 41 - Disclosure of Interest in Other Entities.

2015//

- On March 28, 2015, with the authorization of the State Council, the State Development and Reform Commission, the Ministry of Foreign Affairs and the Ministry of Commerce jointly issued the Vision and Action of Promoting the Joint Construction of the Silk Road Economic Belt and the 21st century Maritime Silk Road.
- On December 25, the Asian Infrastructure Investment Bank (AIIB) was officially established. There were 57 intended founding member states.

2015//

- On March 24, 2015, the Ministry of Finance issued the General Classification Standard of Accounting Standards for Business Enterprises.

2016//

- On January 4, 2016 and January 7, 2016, the SSE Composite Index fell and stopped for two times, indicating the failure of the circuit breaker system.
- In December 2016, "Shenzhen Hong Kong Stock Link" was launched.
- Number of listed companies at the year end of 2016, 3,052; and market value at the year end of 2016, 50,768.6 billion yuan.

- In 2016, the Ministry of Finance, as the standard setter, carried out the following works with regard to accounting:

A. further improvement of ASBEs system

1. Issuing of the relevant accounting treatment provisions.
2. ASBEs under the process of revising.
3. Issuing of revised ASBEs related to financial instruments
4. Researching accounting treatment of carbon emission trading.
5. Improving the standard implementation mechanism
6. Carrying out the functions of CASC

B. Full participation in the development of IFRSs

C. Steadily promoting the international convergence and equivalence

2017 //

- On January 12, 2017, the State Council issued the Notice on Several Measures to Expand the Opening up and Active Utilization of Foreign Capital. On August 8, 2017 and June 10, 2018, Notice on Measures to Promote the Growth of Foreign Investment and Notice on Measures to Actively and Effectively Utilize Foreign Investment to Promote High-quality Economic Development were successively issued.
- From May 14 to 15, the first "Belt and Road" International Cooperation Summit Forum was held in Beijing. President Xi Jinping emphasized in his speech that the "Belt and Road" should be built into the road of peace, prosperity, open, innovation and civilization.
- In July 2017, "Bond Connect" was launched, increasing the bond market connectivity between Mainland China and Hong Kong.

2017 //

- October 18-24 the 19th National Congress of the CPC was held, stating the entering of socialism with Chinese characteristics into a new era. According to the conference, a comprehensive analysis of the international and domestic situation and China's development conditions can be arranged in two stages from 2020 to the middle of this century. In the first stage, from 2020 to 2035, on the basis of building a moderately prosperous society in an all-round way, striving for another 15 years to basically realize socialist modernization. In the second stage, from 2035 to the middle of this century, on the basis of basically realizing modernization, striving for another 15 years to build China into a powerful socialist modernization country that is rich, strong, democratic, civilized, harmonious and beautiful.

2017 //

- In 2017, MSCI index finally included A share companies, at A share's fourth try, marking A-share's opening up to the world. The market used the word "adult gift" to describe A-share's including into MSCI.
- Sino-US trade conflicts began at August 14 as U.S. President Donald Trump signed administration memo to initiate trade investigation against China.
- Number of listed companies at the year end of 2017, 3,485; and market value at the year end of 2017, 56,708.6 billion yuan.

- In 2017, the Ministry of Finance, as the standard setter, carried out the following works with regard to accounting:

A. Serving the capital market and "going out" strategy, perfecting the ASBEs system

- ✓The revised standards,
- ✓ASBE 14 - Revenue,
- ✓ASBE 16 – Government Grants,
- ✓ASBE 22 –Financial Instruments: Recognition and Measurement,
- ✓ASBE 23 - Transfer of Financial Assets,
- ✓ASBE 24 – Hedging,
- ✓and ASBE 37 - Financial Instruments: Presentation, and the newly drafted ASBE 42 - Non-current Assets Held for Sale, Disposal Group and Discontinued Operations were issued, to meet the need of economy and capital market development.
- ✓Relevant implementation guidance was compiled; and ASBE Interpretations 9-12 were also issued.

2017 //

- B. Carrying out the implementation of ASBEs**
- C. Carrying out the functions of CASC**
- D. Participating in the development of IFRSs**
- E. Steadily promoting the international convergence and equivalence**

2018 //

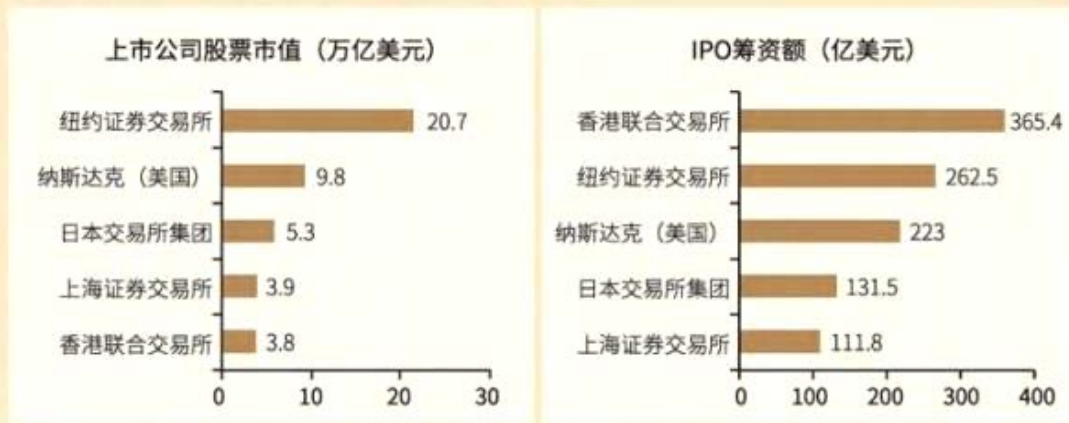
- In 2018, FTSE Russell, the world's second largest index company, announced the inclusion of A share in its global stock index system.
- November 5 to 10, 2018, the first China International Import Expo was held in Shanghai. President Xi Jinping pointed out in his speech that the expo was by far the world's first import oriented national exhibition. It was a practical action for China to promote the construction of an open world economy and support economic globalization. It also announced in his speech, the establishment of a science and innovation board on the Shanghai Stock Exchange and implementation of the pilot program of registration.
- Number of listed companies at the year end of 2018, 3,584; and market value at the year end of 2018, 43,492.4 billion yuan.

2018//

- By the end of 2018, in the ranking of the World Federation of Exchanges, the total market value of Shanghai Stock Exchange ranked the fourth,

with the top three being New York Stock Exchange, NASDAQ (US) and Japan Exchange Group. In terms of IPO Financing volume, Shanghai Stock Exchange also ranked the fourth, with the top three being Hong Kong Stock Exchange, the New York Stock Exchange and NASDAQ (US).

◆ 全球主要交易所排名 (2018年)



★ 数据来源: WFE、上交所资本市场研究所

- In 2018, the Ministry of Finance, as the standard setter, carried out the following works with regard to accounting:

A. Further improving the ASBE system

- ✓ The revised standard, ASBE 21- Lease, was issued.
- ✓ The implementation guidance for standards as revenue, government grants, non-current assets held for sale, disposal group and discontinued operations, and financial instruments: recognition and measurement, transfer of financial assets, hedging, and financial instruments: presentation etc. was drafted.
- ✓ Format of Financial Statements of General Enterprises in 2018 and Format of Financial Statements of Financial Institutions were issued.
- ✓ The Provisions on Disclosure of Accounting Information Related to Intellectual Property was issued jointly with State Intellectual Property Office.
- ✓ ED of ASBE X - Insurance Contracts (Revised), was issued for comment.

B. Monitoring the implementation of ASBEs

C. Researching on accounting treatment under the new business model

D. Participated in the development of IFRSs

E. Researching on the arrangement of accounting standards for the opening of capital market

F. Promoting international convergence and equivalence of accounting

- In September 2018, through communication and coordination between the Ministry of Finance and the HKICPA, it was recognized that the revision of ASBEs carried out in mainland China in recent years is in principle consistent with the HKFRSs (direct adoption of IFRSs) and IFRSs.

2019//

- On March 26, 2019, according to the first financial statistics, the performance of GEM board companies in 2018 reached the lowest value in the past three years: 748 listed companies' total net profit attributable to the parent in 2018 was 45.8 billion yuan, and in 2017 and 2016 was 96.8 billion yuan and 101 billion yuan respectively, compared with that, the overall performance of GEM board companies in 2018 decreased by more than 50%. Goodwill impairment has become one of the main reasons for the decline in the performance of GEM board companies.
- On June 13, 2019, the SSE STAR Market officially opened; on July 22, 2019, the first 25 companies of the SSE STAR Market were listed.
- On June 17, 2019, the Shanghai London Stock Connect officially launched, and the two-way opening of China's capital market ushered in a new milestone. Huatai Securities became the first A-share company to issue GDR.

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- On June 21, 2019, the launching ceremony of A share's inclusion into the FTSE Russell global index was held in Shenzhen Stock Exchange.
- On June 25, 2019, Shanghai Stock Exchange and Japan Exchange Group held the opening ceremony of China Japan ETF connect.

2019//

- Li Chao, vice chairman of CSRC, said at the 16th global annual meeting of the International Financial Forum (IFF) in Guangzhou on November 23, 2019 that since this year, CSRC has comprehensively deepened the reform of capital market and made efforts to smooth the virtuous cycle of finance and real economy, including: promoting the establishment of STAR market, and successfully implementing the pilot registration system reform.

- In May, the Ministry of Finance issued the revised ASBE 7 - Exchange of Non-cash Assets and ASBE 12 – Debt Restructuring.



TWO

Accounting standards
and
capital market
looking ahead



01

The development of capital market puts forward new demands for accounting standards



02

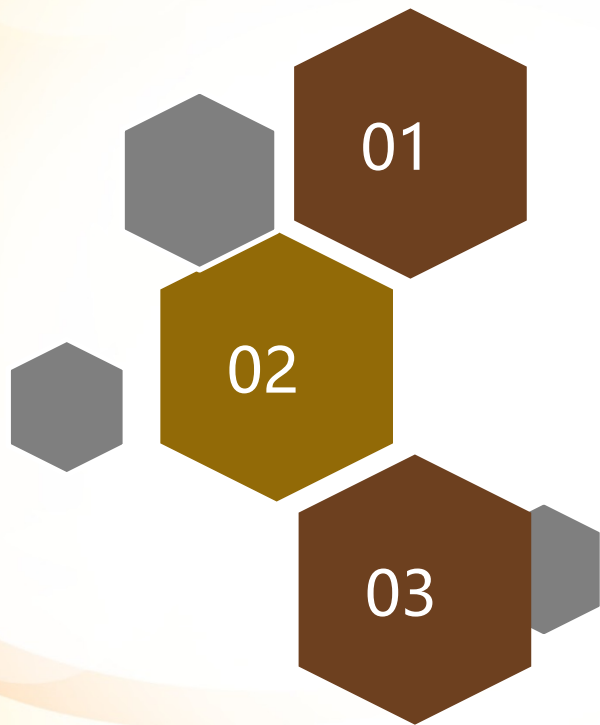
**The healthy operation of capital market
is inseparable from the participation of
accounting standards**

SUM UP

Financial information is the core content of capital market information disclosure.

Accounting standards, as the basis of financial information provided by listed companies, promote each other and develop together with the capital market.

Experience shows



complement and promote

expectation gap expanding

constantly respond / polish

Go Beyond



Franklin Delano Roosevelt

"The same considerations which make accounting of such paramount importance in private enterprise have equal force in their relation to public business."



THANK YOU

Wu Jie

Senior Partner, Pan-China CPAs LLP

