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The impact of IFRS 9 on listed companies in China

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With the intensification of world economic integration, IFRS has become more widely used through continuous innovation and reform. It quickly became the goal of the gradual unification of domestic accounting standards. On November 12, 2009, the IASB issued a different version of the former International Financial Reporting Standard for financial assets in accounting operations classification and measurement, namely IFRS 9. With the release of the new standards, many countries have joined the ranks of the gradual international unification of financial reporting standards. As a member of the IASB, China has also taken measures to amend accounting standards to achieve the gradual reunification of different accounting standards. This accounting standard focuses on financial instruments previously implemented in China and is based on IAS 39. This study examines the impact of the implementation of IFRS 9 on the financial statements of listed companies in the People's Republic of China (PRC). So, it raises a research question: What impact does the implementation of IFRS 9 have on the financial reports of listed companies in China? Methodologically, the study employs a mixed approach involving qualitative and content analysis of the data from the financial statements of multiple case studies of five listed enterprises in the PRC during the periods of 2016 and 2017. Results indicate that the impact of available-for-sale financial assets on investment income, other comprehensive income, and comprehensive income is significant. The adjustment of IFRS 9 in financial assets measured at fair value through profit or loss does not cause significant changes in financial data. The IFRS 9 classification model does not substantially affect subsequent measurement and financial results of held-to-maturity investments. Loans and advances can still be measured at amortized cost, and accounts receivable are subject to change at fair value. At the same time, IFRS 9 puts forward certain requirements for the professionalism of IT systems and Chinese accountants. To improve the continuous convergence of IFRS, it is very necessary to track the revision of international accounting standards continuously and closely study the related issues of financial asset accounting. Finally, this study proposes some countermeasures to standard setters and policymakers, and suggestions for domestic accounting standards to further improve international convergence.

Key words: China, convergency, financial industry, financial instruments, IFRS 9.

INTRODUCTION

Owing to the globalization of the world economy, international capital markets have increasingly opened up and integrated with the Chinese market. The rapid expansion of Chinese commercial activity facilitated the

fusion of the Westernized debit-credit model with the traditional Chinese accounting model (Peng and Brown, 2017). In this context, the gradual international unification of accounting standards has become essential for the Chinese economy. In 2002, the European Union (EU) Parliament passed a regulation requiring all companies listed in the EU to use International Financial Reporting Standards (IFRS) for fiscal years starting after January 1, 2005 (Soderstrom and Sun, 2008). Especially in the past few years of rapid financial development, numerous countries have initiated discussions about unification with the IFRS. Consequently, when the financial crisis erupted in 2008, the significance of accounting standards reached unprecedented heights. People became more aware of the urgency of improving the openness of accounting information, eliminating mystification, and designing a more coherent accounting standard.

In the same vein, in November 2009, to enhance the understanding of financial instruments and mitigate the low quality of accounting information, the IASB issued IFRS 9, marking a fundamental solution for the improved classification and measurement of financial assets (Deloitte, 2010). Simultaneously, the release of "Financial Instruments: Amortized Costs and Impairment (Consultation Draft)" indicated that the issues of amortization cost measurement and financial asset impairment testing were put on the agenda to promote the international convergence of accounting standards in several countries. As a member of the IASB, China has also expressed its intent to amend relevant accounting standards. Thus, the Ministry of Finance China (2009) promulgated the "Long-term comprehensive roadmap for domestic accounting standards and IFRS 9" (Draft for Comment IFRS-ORG, 2023), emphasizing its commitment to continued comprehensive convergence efforts.

The unification of accounting standards, a key pillar of globalization, is essential for the development of domestic accounting models that may differ from international standards. This serves as a crucial backdrop following the implementation of analytical criteria introduced by the IFRS 9 reform in the financial reports of the People's Republic of China's (PRC) financial industry. Alongside the countermeasures for the gradual unification of China's international accounting standards, the principal changes in IFRS 9 (KPMG, 2014) pertain to the classification, measurement, and impairment testing of financial instruments.

Compared with CAS22, the most noteworthy change lies in the transformation of the four-category model for financial assets, categorizing them into fair value measurement and amortization, resulting in two major categories of cost measurement. This shift not only affects measurement methods but also triggers subsequent changes in measurement. Given that China's financial institutions, with a central bank at their core and commercial domestic banks as their primary operating entities, predominantly manage financial assets, the impact of the IFRS 9 reform is substantial.

Building on this perspective, Okezie et al. (2020) reveals significant values of $0.001 < 0.05$ and $0.013 < 0.05$ for Earnings Per Share (EPS) and Book Value Per Share (BVPS) individually. The authors also note an average increase of 0.52 and 4.58 for EPS and BVPS, respectively, attributable to the adoption of IFRS. Furthermore, the financial report information of listed and operating companies in China is relatively accessible, prompting the authors to select five listed commercial companies as research subjects.

Prior studies (Fand et al., 2022; Zang et al., 2022) indicate that previous accounting standards, namely CAS22, had a limited scope and achieved gradual unification with global accounting standards, but complete convergence was not reached, and differences still exist. Against the backdrop of the world's gradual unification and the ongoing convergence of accounting standards in the People's Republic of China, the strategy and timing of this convergence, and the resulting economic consequences, remain subjects worthy of exploration.

This study contributes to previous research by analyzing China's position and the impact of the adoption of IFRS. Drawing from the perspective of Kim and Shi (2012), the voluntary adoption can be viewed as a firm's strategic move to enhance adoption for mandatory disclosure at a country level.

This paper aims to explore the uncertain impact of the IFRS 9 reform on the financial instruments of listed companies at the country level. Through this exploration, it intends to propose countermeasures and suggestions for the future reform of domestic accounting standards under the context of international gradual convergence. The goal is to foster further improvement and development of domestic accounting standards, safeguarding China's interests and better serving the overall economic development. The paper strives to facilitate the convergence of domestic accounting standards with international standards.

Relevant institutions are encouraged to enhance their understanding and tracking of the evolving global financial asset accounting standards. In-depth research on issues related to financial asset accounting is

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recommended, with an active participation approach in the reform process of international financial asset accounting standards.

This study focuses on the financial industry for various types of analysis. It discusses the classification status and measurement models of China's financial assets through data statistics, analyzes the implementation results and consequences of IFRS 9 on China's financial industry, and proposes policy recommendations for the People's Republic of China's (PRC) financial asset accounting reform.

LITERATURE REVIEW

The gradual global convergence of accounting standards has become a widespread phenomenon. However, due to the variations in national accounting standards, the pursuit of marketization, and the internationalization of economies, the degree of convergence differs among countries. Nonetheless, policymakers, institutions, and academics from various nations can significantly contribute to the ongoing convergence of international accounting standards through heightened awareness.

In 2010, the US Securities and Exchange Commission (SEC) voted to endorse a set of widely recognized accounting standards (SEC, 2010). Concurrently, the SEC developed plans to assess the implementation of IFRS convergence, with the Financial Accounting Standards Board (FASB) advocating a cautious transition. The FASB, retaining control of US Generally Accepted Accounting Principles (GAAP), is evaluating IFRS guidance and considering integrating US GAAP and IFRS within 5 to 7 years. The SEC issued a report in May 2012, endorsing a "conformity recognition" strategy for the integration of IFRS with current US accounting standards. Despite challenges, the IFRS Foundation Trustee concluded that the US could successfully transition to IFRS.

In 2000, the European Union (EU) issued a memorandum outlining its financial reporting strategy, stating that from 2005, listed companies would have to operate in accordance with global accounting standards. The EU adopted a "review and endorsement" system for IFRS, with listed companies preparing financial statements based on EFRAG analysis and subsequent recommendations by SARG and ARC. The EU's adoption of IFRS is based on an analysis of alignment with its internal interests, not a full adoption.

In July 2007, Brazil announced a transition period for the convergence of accounting global standards. From 2007 to 2009, listed companies could choose to prepare financial statements according to IFRS. By the end of 2010, Brazil fully unified with IFRS, mandating all listed enterprises to adopt IFRS for financial statements. Brazilian banks adhered to IFRS regulations from 2010, marking a rare case of complete IFRS adoption for both consolidated and individual financial statements (Carvalho and Salotti, 2013). A similar case of IFRS adoption is observed in Nigeria, as detailed in Okezie et al. (2020) on money deposit banks.

In 2007, the ASBJ (Accounting Standards Board of Japan) signed the Tokyo Agreement, initiating Japan's efforts to achieve the unification of accounting principles with IFRS (International Financial Reporting Standards) by 2011. To promote IFRS adoption, the Financial Services Authority of Japan proactively engaged in several strategies. Firstly, relevant interest groups were urged to promptly respond to IFRS changes, expressing Japanese accounting practitioners' perspectives to ensure the reflection of Japanese business and trade practices in IFRS. Secondly, recognizing the need for accurate translation and understanding of IFRS, the Financial Services Authority conducted training and education for accounting practitioners to enhance their proficiency in interpreting and utilizing international financial reports based on IFRS guidelines. On June 21, 2012, the Japan Financial Services Agency announced the postponement of IFRS adoption, requiring a transition period of at least 5 to 7 years for Japanese companies, making the adoption mandatory by March 2015.

In January 2010, the Indian Corporate Affairs Department issued a roadmap for the transition to IFRS. In February of the same year, India announced its alignment with IFRS, specifically targeting listed enterprises and large non-listed enterprises. Financial enterprises in India adopted IFRS between 2012 and 2014, leading to the unification of Indian accounting standards. In March, the Indian government, during the CII, stated its intention to set a timetable for IFRS adoption, requiring companies to adopt IFRS from 2011. India planned to implement a step-by-step approach by aligning its own accounting standards with IFRS. To ease the transition between old and new accounting global standards, the Indian institute considered marking the corresponding name of the former GAAP of India after the new standard.

It's worth noting that in the context of an increasingly integrated international capital market, the global unification of accounting standards has become a prevailing trend. Developing countries actively embraced global accounting standards, a concept widely accepted by accounting professionals worldwide.

Looking at countries globally, both developed and developing, amid gradual internationalization, the shared goal is to align with international standards. Developed nations aim to keep pace with the global standard, while less developed countries anticipate further economic development and integration into the international community. The push for reform in accounting standards and systems is a global trend. Though the paths may vary due to differences in economic aggregates and

growth rates, the universal goal of converging national accounting standards with the global standard remains consistent, contributing significant benefits to the international economy. Many countries have invested in this trend and actively explored convergence strategies. Today, the aspiration to unify global accounting standards is widely acknowledged by accounting professionals worldwide.

Research literature, such as Okezie et al. (2020), reflects the widespread recognition of international convergence by accounting circles globally. Among domestic scholars, the focus has been on analyzing the degree of unification between China's global accounting standards (CAS22) and IFRS, acknowledging substantial alignment in accounting confirmation, measurement, and disclosure with international financial reporting standards. A major challenge for China's accounting standards has been the implementation of IFRS 9. Though enforced in 2015, relevant literature on this topic is relatively scarce, generally exploring motivations and countermeasures. Moreover, studies on listed companies have been relatively simplistic, with limited exploration of the unique domestic environment that may still result in some accounting differences despite the unification with global financial standards.

China faces a significant journey in achieving accounting standards and international convergence, as noted by Gai (2001), who emphasized that the internationalization of global accounting standards is a long-term endeavor. Gai suggested that China should not merely replicate global accounting standards but rather develop a system rooted in its history and reality, considering its unique domestic situation.

The discussion on fair value has been ongoing, with Peng and Bewley (2010) pointing out China's tendency to be more exclusive of fair value, aligning with its national conditions. Gai and Liu (2004) argued that achieving global accounting standards' unification involves substantive content convergence, surpassing mere literal coordination at the international accounting standards level.

China's rapidly developing financial industry, despite imperfections in systems and supervision, presents obstacles to implementing international accounting standards. Yang (2018) highlighted the challenges posed by the IFRS reform, evaluating China's listed financial industry's valuation ability and risk pricing level, particularly in managing risk appetite.

In April 2010, China announced a "Continuous Unification Roadmap for Domestic Business Standards and Financial Global Standards," revealing a convergence position, as Liu (2010) noted. The roadmap emphasized the need to align with international financial reporting standards, acknowledging the convergence strategy, and emphasized the importance of adapting to China's specific circumstances.

To address these challenges, it is crucial to focus on the theoretical and practical aspects of financial reporting standards (Xingjie, 2010). The convergence process should be strategic, considering China's unique position in emerging markets, according to Wang (2010). The impact of changes in standards, particularly those discussed in IFRS 9, needs careful assessment, with an emphasis on improving the capital market and actual operation levels of fair value.

The adoption of IFRS 9 raises issues for Chinese financial institutions, including valuation, fair value change processing, and profit distribution (Pan, 2011). Formulating accounting standards, disclosing investment projects, providing operational guidelines for financial instruments' information disclosure, and limiting measurement options are crucial aspects that need attention.

Correct decision-making is paramount, requiring government and relevant departments' unprecedented attention (Liu et al. 2011; Isaboke and Chen, 2019; Hou et al., 2016). It's suggested that China should continue its government-led norm-setting mechanism, adopting a convergence approach to maintain initiative and flexibility.

The collaboration between IASB and FASB since 2005 in improving and simplifying financial instruments has led to significant developments, as seen in the March 2008 article "Reducing the Complexity of Financial Instruments Reports." This effort focused on simplifying the measurement and hedging accounting of financial instruments, contributing to subsequent changes in financial instruments accounting. The incorporation of these plans into the agendas of IASB and FASB further reflects the commitment to enhancing global accounting standards.

In 2007, the US subprime mortgage crisis triggered the global financial crisis, causing an immediate impact on financial accounting issues, particularly in fair value measurement. The financial instrument accounting standards system, perceived as overly complex, prompted the FASB to issue numerous accounting standards related to financial instruments. This resulted in a diverse range of financial instruments and non-uniform measurement methods, diminishing the comparability of accounting information.

The International Financial Reporting Standards Board (IASB) responded to these challenges by introducing IFRS 9 Financial Instruments, focusing on three main areas: classification and measurement, reclassification, and interest and losses. IFRS 9 outlines the classification of financial assets into two categories based on the business model for managing assets and contractual cash flows, measured at either amortized cost or fair value. Assets held for collecting contractual cash flows and meeting specified terms are measured at amortized cost, while remaining assets are measured at fair value. IFRS 9 introduces a requirement for entities to reclassify

all affected financial assets when changing their business model for managing financial assets, although such changes are infrequent. For financial assets measured at fair value and not in a hedging relationship, gains and losses are recognized in the income statement, with changes in fair value recorded in other comprehensive income. Financial assets measured at amortized cost follow the amortization method in the income statement. The classification of financial liabilities under IFRS 9 remains unchanged, categorized as amortized cost or fair value through profit or loss, with changes in fair value attributable to credit risk recognized in other comprehensive income when the fair value option is employed.

Comparing IFRS 9 with the accounting standards CAS22 implemented in China reveals several differences, mainly in the classification principles, measurement basis, fair value change, and impairment of financial instruments. CAS22 allows entities to classify financial assets into four categories based on their ability and intent to hold these assets, while IFRS 9 simplifies the classification into two broad categories: financial assets measured at fair value and financial assets measured at amortized cost. IFRS 9 emphasizes the entity's business model as the primary element for classifying financial assets, requiring consideration of cash flow characteristics only after business model criteria are met. The concept of a business model, proposed by IFRS 9, necessitates entities to generate contractual cash flows associated with financial assets, focusing on holding assets not for realizing gains from changes in fair value through premature sales.

According to CAS22, available-for-sale financial assets are measured at fair value at the balance sheet date, with changes in fair value recognized in other comprehensive income. When these assets are sold, the difference between the selling price and the carrying amount is included in investment income. The amount of the original fair value changes recognized directly in equity is transferred to other income accounts and also recognized in current income. IFRS 9 also requires fair value measurement of non-trading equity instruments, with changes reported in other comprehensive income, maintaining consistency with CAS22.

While CAS22 allows the fair value option to be applied under specific conditions, IFRS 9 retains only the condition related to eliminating or reducing inconsistency in recognizing or measuring gains or losses caused by asset and liability mismatch. IFRS 9 permits entities to designate financial assets at fair value through initial recognition, recognizing changes in fair value in current profit or loss.

CAS22 prohibits reclassification of a financial asset designated as fair value through profit or loss, and other types of financial assets cannot be classified into this category. IFRS 9, on the other hand, allows reclassification of financial assets between measurement categories based on changes in business model characteristics. The entity must disclose changes in the business model and reclassify financial assets on the first day of the first reporting period after the change, without permitting reclassification in other cases.

Regarding impairment testing, CAS22 requires testing for all types of financial assets except those at fair value through profit or loss, and impairment losses on assets measured at amortized cost can be reversed if objective evidence suggests the value has been restored. IFRS 9 requires impairment testing only for financial assets measured at amortized cost and allows the reversal of impairment losses, without specifying the type of financial asset.

For financial liabilities, IFRS 9 introduces minor changes to classification principles and measurement basis (Table 1). Transactional financial liabilities and derivative financial liabilities are measured at fair value, with changes recognized in the income statement. Other financial liabilities are measured at amortized cost or fair value, with changes recognized in the income statement. The fair value option can be applied, with changes attributable to changes in the entity's own credit risk recognized in other comprehensive income.

In summary, while CAS22 and IFRS 9 share similarities, especially in the treatment of available-for-sale financial assets and the general framework for financial liabilities, differences exist in reclassification rules, impairment testing, and the fair value option. IFRS 9 provides more flexibility in certain areas, reflecting a convergence effort with global accounting standards.

METHODOLOGY

The accounting standards with focus on financial instruments previously implemented in China are based on IAS 39. So, to examine the concern of this study spurs a research question: what impact does the implementation of IFRS 9 have on the financial reports of listed companies in China? Complementarily, we examine the opportunities and challenges brought by the IFRS standard, ensuring those investors' rights should not be violated, further prolonging the prosperity of domestic financial markets. In the same line of thought, this paper adopted mixed methodology; a research paradigm whose time has come (Johnson and Onwuegbuzie (2004). It consists of multiple case studies and a content analysis of the data from the financial statements of five listed enterprises in the People's Republic of China during the periods of 2016 and 2017. Stake (1995) states that a case study aims to capture the full complexity of a single case. So, as a case study is meant to mine the variabilities that exist in a case the result of multiple case study could be a stream of knowledge being derived from its collective analysis. Whether the Chinese financial industry is well adapted to the application of IFRS 9 in normal work through a large number of data access, one could have great ideas about IFRS 9 from the onset.

This paper combines theoretical analysis with statistical analysis of data to track the IFRS 9 process, studying the revision of IFRS 9, and having an in-dept analysis by comparing the similarities and

differences between IFRS 9 and China's previously implemented standard CAS22. On this basis, choosing the domestic financial industry listed companies, through manual collection of the annual report data of five listed enterprises domestic between 2016 and 2017, through the inductive and statistical analysis of relevant data, the practical application of IFRS in China was studied. Conduct an empirical study to verify the above theoretical analysis. Using empirical research to test the results of theoretical analysis can make theoretical analysis more realistic. By complementing the different features of the two methods, better research results can be obtained. In order to carry out relevant investigation and analysis, the study selected five representative companies from Chinese listed companies for research, data collection and analysis. The five companies are from the three representative Chinese financial industries: banking, securities and insurance.

A general overview of each company is presented below to facilitate the visualization of their realities, focusing on the time the company was created, the size of the company, the age, sex, nationality and professional experience of the CEO of each company, the company headquarters and revenue, the number of employees and the structure of the company's financial assets. This data based on collection for research.

Characterization of companies

Bank of China

It is a large state-owned bank under central management. Bank of China is the only bank in China that has been operating for more than 100 years and is the most internationalized and diversified bank in China. Established on February 5, 1912, with an annual turnover of 115.427 billion US dollars (2018), the number of employees is 311,133 (2018), and the world's top 500 is 46 (2018). According to China Accounting Standards, the Group achieved a net profit of RMB 185 billion in 2017, an increase of 0.51% over the previous year; the net profit attributable to owners of the parent company was RMB 172.4 billion, an increase of 4.76% over the previous year. At the end of the year, the total assets, total liabilities and owner's equity of the group reached 19.47 trillion yuan, 17.89 trillion yuan and 1.58 trillion yuan respectively, up 7.27, 7.38 and 6.02% respectively from the end of the previous year. The non-performing loan ratio was 1.45%, down 0.01 percentage points from the end of the previous year (Bank of China, 2017).

The Bank closely tracked the financial market dynamics, increased the investment in RMB interest rate bonds, continued to optimize the investment structure, rationally placed investment duration, and comprehensively balanced risk returns. At the end of the year, the Group's total investment was 455.472 billion yuan, an increase of 582.838 billion yuan or 14.65% over the end of the previous year. Among them, the total investment in renminbi was 3.5316 billion yuan, an increase of 527.738 billion yuan or 17.65% over the end of the previous year. Foreign currency investment totalled US$156.721 billion, an increase of US$16.610 billion or 11.85% from the end of the previous year (Bank of China, 2017).

Agricultural Bank of China

It is a large state-owned bank under central management. It provides a variety of corporate banking and retail banking products and services, as well as financial market business and asset management business. The business scope also covers investment banking, fund management, financial leasing, life insurance and other fields. Founded in 1951, the annual turnover is 122.365 billion US dollars (2018), the number of employees is 4,915,78 (2018), and the world's top 500 is 40th (2018) (Agricultural Bank of China, 2017).

China Merchant Securities

China Merchants Securities (2017) is the first member of the China Stock Exchange, the first batch of approved comprehensive securities companies, the first batch of lead underwriters, the first members of the national interbank lending market and the first batch of self-operated, online transactions and In July 2008, the company was assessed as a Class A AA-class brokerage by the China Securities Regulatory Commission. Established in 1991, China Merchants Securities is headquartered in Shenzhen, with 96 outlets in 60 cities across the country and branches in Hong Kong. On November 17, 2009, it was listed on the Shanghai Stock Exchange. As of December 31, 2017, the book value of financial assets measured at fair value through profit or loss increased by RMB 24,825,829,964.12, an increase of 51.46%, mainly due to the increase in investment scale of bonds this year.

China Life Insurance (Group) Company

China Life Insurance (Group) Co., Ltd. is a state-owned large-scale financial and insurance industry. It was established on October 20, 1949, and is headquartered in Beijing with an annual turnover of 101.274 billion US dollars (2015) and 130,732 employees (2015). The world's top 500 is located in the 42nd (2018) (China Life Insurance, 2017).

Bank of Ningbo

The bank founded on April 10, 1997, Bank of Ningbo is a city commercial bank with independent legal personality. The headquarters is located in Ningbo, Zhejiang Province, with an annual turnover of 12.761 billion (2013) and 6310 employees (employees at the end of 2013). On July 19, 2007, Ningbo Bank was listed on the Shenzhen Stock Exchange and became the first bank in China as one of the listed city commercial banks. Strategic positioning: “SME. As of December 31, 2017, the company held financial assets at fair value through profit or loss of RMB 146.482 billion, an increase of RMB 138.206 billion from the end of the previous year. Mainly, the company comprehensively considers the needs of liquidity management and asset and liability structure optimization and increases investment in equity instruments such as money market funds. As of December 31, 2017, the company held available-for-sale financial assets of RMB 218,843 million, a decrease of RMB 61,709 million from the end of the previous year, mainly due to a decrease in investment in bank wealth management products. As of December 31, 2017, the company's bank-to-maturity account bond coupons totalled 60.783 billion yuan, an increase of 21.412 billion yuan from the end of the previous year, mainly due to the company's interest rate risk management and liquidity management needs, considering the benefits and Risks, actively grasping market opportunities, and appropriately holding up held-to-maturity bonds during the bond yield volatility, the balance of investment in such assets increased from the beginning of the year (Bank of Ningbo, 2017).

The receivables investment is all kinds of debt investment held by the company and has no open market price at home or abroad. As of December 31, 2017, the balance of investment receivables of the company was 95.279 billion yuan, a decrease of 4.297 billion yuan from the end of the previous year, mainly due to the decrease

Table 1. Item difference between CASS22 and IFRS9

CASS22	IFRS9
Financial assets measured at fair value through profit or loss (Transactional financial assets)	Financial assets measured at fair value through profit or loss (FV-TPL)
Available-for-sale financial assets Held-to-maturity investments	Amortization cost measurement
Loan and Receivables	Equity instruments measured at fair value and its changes can choose other comprehensive income (FV-OCL) Debit instruments are measured at amortised cost or measured at fair value through profit or loss

Item	2017		2016	
	Amount	Proportion of assets (%)	Amount	Proportion of assets (%)
Available-for-sale financial assests-bound investment	1,212,898	97.74	1,229,112	98.20
Available-for-sale financial assests-equity investment	28.043	2.26	21.546	1.80
Total available-for-sale financial assests	1,240,941	100.00	1,250,658	100.00

Source: The Accounting Department of the Ministry of Finance 2005; Five listed companies 2016 and 2017 annual report.

in investment such as the asset management plan (Bank of Ningbo, 2017).

ANALYSIS AND DISCUSSION

For this analysis, the study follows the categorization process suggested by Merriam (1998) and Yin (2003); the real lived experience of the actors with the peculiarities. This is a means of comprehending the complexities expressed by the different cases presented in first and second order categories. In particular, the impacts that could be seen with the adoption of IFRS in PRC are presented in the following categories:

Impacts on adjustment of the classification principle, measurement basis and revenue confirmation of financial instruments

It can be seen from the above that the main change of IFRS 9 is the adjustment of the classification principle, measurement basis and revenue confirmation of financial instruments and these changes will inevitably lead to changes in the accounting of financial instruments of listed companies in China. Below will be described the current situation of financial assets, financial liabilities and profit and loss of listed companies in China. On this basis, it points out the adjustment of financial instruments accounting for IFRS 9 reform and the impact of this adjustment on financial statements. As of the balance sheet date, the composition of financial assets of the five listed companies in China in 2016-2017 is shown in Table 2.

As can be seen from Table 2, as of December 31, 2017, the total financial assets of the five listed companies in China were 21,122,639 million, of which the financial assets were measured at fair value and the changes were included in the current profit and loss. Assets of 175,869 million, available-for-sale financial assets of 1,240,941 million, loans and receivables of 17,222,623 million, and held-to-maturity investments of 2,483,206 million, with projects accounting for 0.76%, 5.33%, and 73.99% of total assets, respectively. 10.67%. As at 31 December 2016, the total financial assets of the five listed companies in China were 18,396,593 million. The financial assets at fair value through profit or loss were 117,511 million, and the available-for-sale financial assets were 1,250,658 million. Loans and advances amounted to 14,625,916 million and held-to-maturity investments to 2,399,570 million. The percentages of total assets were 0.59%, 6.27%, 73.32% and 12.03% respectively.

In the table, available-for-sale financial assets are divided into two types: debt investments and equity investments. Among the available-for-sale financial assets held by the five listed companies in 2016-2017, available-for-sale bond investments were 1,229,112 million and 1,212,898 million respectively. The available-for-sale equity investments were 28,043 million and 21,546 million respectively. The former is 43 times and 56 times the latter, respectively. It can be seen that China's available-for-sale bond investments account for the majority of available-for-sale financial assets held by listed companies in China. This conclusion inference is

Table 2. 2016-2017 Financial assets structure of 5 listed companies.

CAS22	Item	2017		2016	
		Amount	Proportion of assets (%)	Amount	Proportion of assets (%)
Fair value measurement and its changes included in current profit and loss	Transactional financial assets	143,331	0.62	88,086	0.44
	Derivative financial assets	32,538	0.14	29,425	0.15
Available for sale financial assets	Available for sale financial assets	1,240,941	5.33%	1,250,658	6.27
Total fair value measurement		1,416,810	6.09	1,368,169	6.86
Loans and receivables	Receivables investment	628,004	2.70	641,789	3.22
	Receivables	4,975,437	21.37	3,826,495	19.18
	Loan and advances	11,619,182	49.91	10,157,632	50.92
Held to maturity investments	Held to maturity investments	2,483,206	10.67	2,399,570	12.03
Total amortized cost measurement items		19.705,829	84.65	17,025,487	85.35
Total four categories of financial assets		21,122,639	90.74	18,396,593	92.22
Total assets at the end of the year		23,278,233	100.00	19,947,351	100.00

Unit: Million.

significant for bank managers, considering that they are responsible for monitoring the effect of fair value accounting regulations, as concluded in the study by Lifschutz (2010).

In the 2016 financial assets project, the fair value measurement amount was 1,250,658 million and the amortised cost measurement amount was 17,025,487 million, accounting for 6.86% and 85.35% respectively. In 2017 financial assets project, the fair value measurement amount of 1,240,941 million and amortized cost measurement amount of 19,705,829 million, accounting for 6.09% and 84.65% respectively. It can be seen that the proportion of financial assets measured at amortised cost is relatively high among the financial assets of listed companies in China.

Impacts on adjustment of internal items adjustments to financial asset instruments and financial liability instruments

IFRS9's adjustments to the internal items of listed companies are mainly classified into two categories, Adjustments to financial asset instruments and adjustments to financial liability instruments. The adjustments will be specifically analysed by comparing the CAS22 and IFRS 9 guidelines.

Adjustment of asset-based financial instruments of listed banks in China

According to IFRS 9, if the amortisation cost is to be measured, one of them must meet the characteristics of the business model and the second must meet the characteristics of the cash flow, otherwise it will be measured at fair value. At present, the financial assets under the four-category model held by five listed companies in China can basically meet the characteristics of their contractual cash flows. Therefore, the change of classification model needs to be assessed whether it is in line with the business model. In the following, the author will analyse the possible accounting measures of various financial assets in the two-category mode and analyse the impact of IFRS 9 changes on the financial statements and financial statements. (1) Fair value measurement and changes in fair value recognised in profit or loss. According to the provisions of CAS22, under the four-category model, such financial assets are measured at fair value upon initial recognition. And their fair value changes may be recognised directly in current profit or loss at the balance sheet date. Under the two-category model of IFRS 9, the measurement model of such financial assets remains basically unchanged, so the amendment of this IFRS 9 will not result in any significant changes in the financial data for this classified financial asset.

Available-for-sale financial assets: The available-for-sale financial assets held by financial institutions in China generally involve two types, available-for-sale bond investments and available-for-sale equity investments. For available-for-sale bond investments, the entity's purpose is not to sell to obtain fair value change income,

but to obtain the principal and interest brought by the bond based on liquidity management needs, in line with business model characteristics and cash flow characteristics. Therefore, according to the requirements of IFRS 9, this class can be divided into amortized cost. IFRS 9 stipulates that all equity instruments, whether they have quotations in the market, should be measured by fair value. Therefore, for available-for-sale equity investments, they can basically continue to be subsequently measured at fair value.

According to the provisions of IFRS 9, changes in the fair value of available-for-sale bond investments are no longer included in other comprehensive income but are recognized in profit or loss for the current period. The measurement model of available-for-sale equity investments can remain unchanged and continue to be measured at fair value. The changes in fair value can still be included in other comprehensive income. However, the new regulations prohibit it from transferring the accumulated amount of other comprehensive income into the current profit and loss at the time of disposal.

According to the data of the financial report of the listed commercial company in 2016-2017 and the notes to its financial report, we can see that the listed company's available-for-sale financial assets constitute a large proportion of credit investment. For example, the amount of available-for-sale bonds in 2017 was 1,212,898 million, accounting for 97.74% of the total available-for-sale financial assets (1,240,941 million). The total available-for-sale equity investment in 2016 was 21,546 million, accounting for only available-for-sale financial; 0.18% of total assets (1,250,658 million). Therefore, the adjustment of IFRS 9 classification and measurement involves not only the question of the choice of its measurement attributes, and it also involves the issue of revenue recognition. Its impact on available-for-sale financial assets will be more complicated, which will have a greater impact on China's financial institutions.

Held-to-maturity investments: According to the provisions of CAS22, the held-to-maturity category is generally measured at amortized cost using the effective interest method. According to IFRS 9, the held-to-maturity investment of listed companies can basically meet the characteristics of business model testing. For the purpose of obtaining contractual cash flow, such financial assets can continue to be measured by amortized cost. Therefore, the two-category model of IFRS 9 does not substantially affect the subsequent measurement and financial results of held-to-maturity investments.

Loans and accounts receivable: Under the four-category model specified in the CAS22 standard, the accounting principles for loans and receivables are approximately the same as those for held-to-maturity investments and are required to be measured at amortized cost. However, according to the IFRS 9 two classification requirements, the loan as a credit activity form for financial institutions to lend money funds at a certain interest rate and must be returned, in line with the requirements of business model testing and cash flow testing, so loans and advances can still be amortized measurement. However, the receivables are due from the main body but have not received the payment. It is a claim that is formed along with the behaviour of the main business activity. It will be changed to fair value because it does not meet the requirements of the business model. It is worth highlighting, as explained in the literature review, that emerging markets, such as China, are adapting the implementation of IFRS 9 (Liu et al. 2011; Isaboke and Chen, 2019; Hou et al., 2016).

Adjustment of liability financial instruments of listed banks in China

As mentioned above, this time IFRS 9 only made limited changes to financial liabilities. From the current situation, the amount of liabilities measured by the fair value of Chinese financial institutions is small, and most of China's financial liabilities are measured by amortized cost. Therefore, the implementation of IFRS 9 will not cause large changes in financial liabilities. In general, the financial assets measured by the fair value of listed companies account have a larger proportion than the financial liabilities measured by fair value. Therefore, this paper focuses on the impact of IFRS 9 on financial asset adjustment.

Analysis of the influence of FRS 9 on the financial report of China's listed companies

This paper mainly measures and judges the impact on the financial report by analysing the financial assets structure of listed companies, the income structure of listed companies, the capital adequacy ratio of listed companies, and the financial information disclosure of listed companies through IFRS 9 reform.

IFRS 9 impact on the financial assets structure of listed companies

The analysis of the asset structure of listed banks is mainly based on the absolute value and relative ratio of financial assets as a measure. The composition of financial assets under the CAS22 standard four classification model and the composition of the two classification models according to IFRS 9 are analysed. The specific analysis is shown in Tables 3 to 5. The data for the financial asset items in Tables 3 to 5 are all taken from the balance sheets and related notes to the financial

Table 3. Analysis of financial assets structure of 5 listed companies 2016-2017 - based on CAS22.

Financial assets item		2017		2016	
		Amount	Proportion of assets (%)	Amount	Proportion of assets (%)
Fair value measurement and its changes included in current profit and loss	Transactional financial assets	143,331	0.73	88,086	0.51
	Derivative financial assets	32,538	0.17	29,425	0.17
Available for sale financial assets	Debt	1,212,898	6.16	1,229,112	7.22
	Equity	28,043	0.14	22,483	0.13
Total fair value measurement		1,416,810	7.19	1,369,106	8.04
Loans and receivables	Loans and advances	11,619,182	58.96	10,157,632	59.66
	Receivables	5,603,441	28.43	4,468,285	26.24
Held to maturity investments		2,483,206	12.60	2,399,570	13.74
Total amortized cost measurement:		19,705,829		17,025,487	

Table 4. Analysis of financial assets structure of 5 listed companies 2016-2017 - based on IFRS9.

Financial assets item		2017		2016	
		Amount	Proportion of assets (%)	Amount	Proportion of assets (%)
Fair value measurement and its changes includedin current profit and loss	Transactional financial assets	143,331	0.94	88,086	0.64
	Derivative financial assets	32,538	0.21	29,425	0.21
Available for sale financial assets	Equity	28,043	0.18	22,483	0.16
Loans and receivables		5,603,441	36.58	4,468,285	32.41
Total fair value measurement		5,807,353	37.92	4,608,279	33.43
Loans and receivables	Loans and advances	11,619,182	75.87	10,157,632	73.68
Available for sale financial assets	Debt	1,212,898	7.92	1,229,112	8.92
Held to maturity investments		2,483,206	16.21	2,399,570	17.41
Total amortized cost measurement		15,315,286		13,786,314	

Unit: Million.
Source: Five listed companies 2016 and 2017 annual report.

statements of the five listed companies in 2016 and 2017. The data in Table 6 show that the change in the IFRS 9 standard has changed the measurement model of receivables and available-for-sale financial assets equity investments. Additionally, it is worth highlighting that all changes driven by the implementation of IFRS 9 come from the manager's behavior and vary according to the jurisdiction in which the companies are located, as concluded in the study by Daniel and Francois (2022). After adjustment for IFRS 9, financial assets measured at amortised cost accounted for 72.51% of total financial assets in 2017. Financial assets measured at fair value accounted for 27.49% of total financial assets, with an increase of 309.89 and -22.28% respectively. In 2016, financial assets measured at amortised cost represented 74.95% of total financial assets. Financial assets measured at fair value accounted for 25.05% of total financial assets, with growth rates of 236.59 and -19.03%, respectively. It can be seen that the IFRS 9 reform has broadened the scope of fair value measurement. The changes not only involve changes in valuation models, but their changes will inevitably affect the company's profit and loss and equity.

Impact of IFRS 9 on the income structure of listed companies

According to the above analysis, the reform of IFRS 9 has resulted in changes to the classification and measurement of listed financial assets and has expanded the scope of fair value measurement. The above is

Table 5: IFRS 9 and CAS 22 – Financial Assets Classification – Difference Analysis – Data from 2016 to 2017. (Unit: Million)

Financial Assets	2017		2016	
	Fair value measurement	Amortization cost measurement	Fair value measurement	Amortization cost measurement
CAS 22 classification	1,416,810	19,705,828	1,369,106	17,025,487
IFRS 9 classification	5,807,353	15,215,286	4,608,279	13,786,314
Increase	4,390,543	-4,390,543	3,239,173	-3,239,173
Increase ratio	309.89%	-22.28%	236.59%	-19.03%

Source: Annual reports of five listed companies between 2016 and 2017.

Table 6: Derivative statistics of Revenues Structure during 2016 – 2017 (Unit: Million)

Item		2016			2017		
		Amount	E%	F%	Amount	E%	F%
A	Core Profit	344,593	0.20%	3.15%	266,755	0.37%	2.21%
B	Operating Profit	356,989	0.20%	3.04%	274,820	0.36%	2.14%
C	Net Profit	275,773	0.25%	3.93%	213,825	0.46%	2.76%
D	Fair Value and its changes in P&L	175,869	0.40%	6.16%	116,573	0.84%	5.02%
E	Changes in Fair Value P&L	700			982		
F	Investment Income	10,838			5,895		

Source: Annual reports of five listed companies between 2016 and 2017.

mainly based on the analysis of balance sheet items. In this part, the profit structure is analysed mainly from the income statement. Based on the income statement, the impact of IFRS 9 and CAS22 on the financial reporting of listed entities mainly depends on whether the change in fair value of financial assets is included in current profit or loss or in other comprehensive income, whether the disposal gain is included in investment income, and whether the accumulated amount of other comprehensive income can be transferred to current profit or loss at the time of disposal. However, this information may be reflected in the income statement line items "investment income" and "net change in fair value" in the listed entity's financial report. Therefore, the measurement of "revenue structure" mainly refers to "investment income" and "net gain/loss from changes in fair value" respectively, taking into account core profit, operating profit, net profit of listed companies, and share of financial assets at fair value through profit or loss. Here, "core profit" is measured by "operating profit" after deducting "net gain from changes in fair value", "investment income" and "foreign exchange gain".

Overall, investment income has a greater impact on the income statement items than gains and losses from fair value changes. In 2016, the impact of fair value changes on net profit was only 0.46%. In the same period, the impact of investment income on net profit was 2.76%, the latter being six times higher than the former. In 2017, this ratio increased to 16 times. Under the four-category model of five listed companies in China, only financial assets at fair value through profit or loss and available-for-sale financial assets are measured at fair value. In absolute terms, the impact of available-for-sale financial assets on other comprehensive income is far greater than the impact of transactional financial assets on current profit and loss.

From the above analysis, it can be seen that the impact of available-for-sale financial assets is relatively large for both the investment income and other comprehensive income projections. If the change in fair value of the debt component of available-for-sale financial assets is recognised in current profit and loss rather than in other comprehensive income as required by IFRS 9, the equity component of available-for-sale financial assets is measured at fair value. Changes in fair value are recognised in the income statement or in other comprehensive income and are not transferred to the income statement. It is clear that the new classification and measurement will make the listed bank statement more volatile. The volatility of the data will definitely have a greater impact on China's financial institutions.4.3.3 Impact of IFRS 9 on the capital adequacy ratio of listed companies.

Except for the clear capital adequacy ratio provisions

for commercial banks, there is no clear capital adequacy ratio for securities companies and insurance companies. However, due to the foreign mixed operation system, the Basel Accord for commercial banks will become a reference and domestic Supervision is also only referred to the provisions of commercial banks, here will be based on the provisions of commercial banks for analysis. The capital adequacy ratio of commercial banks is generally measured by the ratio of the total capital of commercial banks to the weighted average risk assets. The capital adequacy ratio reflects the extent to which a bank can bear the loss of its own capital after the loss of the assets of the depositor and the creditor. The capital adequacy ratio mainly affects the banking industry through capital, capital deductions, risk-weighted assets and the quality of accounting personnel, see the equation:

*Capital adequacy ratio = (capital-capital deduction) / (risk-weighted asset + (operational risk capital + market risk capital) * 12.5), where capital includes core capital and subsidiary capital.*

According to the “Measures for the Management of Capital Adequacy Ratio of Commercial Banks”, the positive changes in the fair value of available-for-sale bonds included in the owner’ s equity can be included in the subsidiary capital. The credited portion shall not exceed 50% of the positive change; the negative change in fair value shall be fully deducted from the subsidiary capital. Therefore, when the fair value fluctuates greatly, it will amplify the fluctuation of the capital adequacy ratio index, which will adversely affect the calculation result of the capital adequacy ratio. Moreover, according to the requirements of IFRS 9, financial assets that do not meet the measurement criteria of amortized cost are always measured at fair value. Therefore, the expansion of the fair value measurement range will inevitably lead to an increase in capital deductions, thereby reducing the capital adequacy ratio.

For trading financial liabilities, the risk is measured mainly by the credit rating of the external rating agency, and the liability risk of the debt is mainly the reporting entity itself. When the fair value changes, it is sometimes difficult for the reporting entity to distinguish whether it is triggered by changes in its own credit risk. In particular, for non-active market derivative transaction liabilities, the fair value is not easy to obtain, the distinction is more complicated, and the practical operation is more difficult.

IFRS 9 simplifies some of the accounting standards to a certain extent, but in the short term this requires accountants to make up for the complex changes in the actual work by this simplification. At the same time, most of China's financial assets are measured at amortized cost. IFRS 9 requires that the financial assets measured at amortized cost be tested for impairment according to the “expected loss model”. The treatment results of the impairment model directly affect the impairment loss of the main financial assets. However, the expected loss model requires more professional judgment, complex and complete historical data support, which not only requires a lot of time and cost, but also faces the specific operational problems of accountants. This requires accountants not only to have certain professional knowledge, but also to understand financial and IT systems. This requires the industry to increase the training of accountants and improve the quality of accountants. This finding is in line with the research carried out by Benetti et al. (2023) which showed a comparison of the impacts of implementing IFRS in France and Brazil, highlighting the costs and the need for investments in training and development of personnel and systems.

Impact of IFRS 9 on financial information disclosure of listed companies

According to IFRS 9, only financial assets measured at amortized cost are required to be tested for impairment, and the “expected loss model” is used for impairment. According to the calculation method of the expected loss model, it is necessary to expect future cash flow during the duration of the entire financial asset that is, before the relevant signs of impairment occur, it is necessary to estimate and confirm the loss and extract the corresponding impairment provision. The new expected loss model can delay the “procyclical effect” of fair value measurement to a certain extent, adjust the estimation of impairment losses in each period, and promote income, loss ratio, and smooth profit. However, the drawbacks of the “expected loss model” are also exposed. The new model requires strong subjective judgment and data support. The enhancement of subjective judgment undoubtedly provides the company with the opportunity to manipulate profits by adjusting the expected losses. The management of the company may evade the supervision system by whitewashing the company, so that its potential risks cannot be discovered. Secondly, it is expected that the loss will require huge data support, which is a huge challenge for IT systems. At present, China's interest rate is in a strict control stage, and the internal rating system of the company is still not perfect, and the system guarantee of the new model cannot be met in the short term.

Even if the company develops a model for the expected impairment loss and makes it systematic, the establishment of the model still requires a lot of time and cost, which has to be solved in practical applications. In addition, the expected loss model has strong requirements for subjective judgment and complex data manipulation, which is inconsistent with the accounting objective of reducing the complexity of accounting information. It is clear that at the same time as regulation

ensures the full implementation of the standard, highlighting the important benefits for the company (IFRS-ORG, 2023), there are, on the other hand, duly justified reasons that support the results of banks still adapting to the implementation. This is justifiable as the investment for full and effective implementation is high, in addition to other elements that can impact this process, such as company culture, training, professional experience, people's age, location (country), segments and size of the company (Benetti et al., 2023). As this study by the authors shows, the adoption of IFRS generally brings benefits in terms of quality and comparability of profits, but it also increases the costs associated with its implementation for companies.

Conclusion

This paper provides a detailed analysis of the historical development of the International Accounting Standards Board's (IASB) accounting standards for financial assets. It examines the international convergence of China's financial asset accounting standards, highlighting the various attempts and setbacks in improving domestic standards. The research indicates that the reduction of the classification level of financial assets and the enhancement of fair value status, as introduced by IFRS 9, represent the inevitable direction of financial asset accounting reform.

The article delves into the revised content of IFRS 9, conducting a thorough review and drawing comparisons with China's previous accounting standard, CAS22. This comparative analysis establishes a foundation for the subsequent research. The paper then assesses the application status of CAS22 and IFRS 9 using statistical data from five Chinese listed companies in the financial industry. Annual report data from 2016 to 2017 were manually collected and adjusted based on the two classification methods of IFRS. The impact of different classifications on financial information, such as profit and loss in the financial industry, was compared to validate the theoretical analysis.

Research findings indicate that the financial industry predominantly holds available-for-sale financial assets, which significantly impact investment income, other comprehensive income, and comprehensive income. The adjustments made by IFRS 9 in financial assets measured at fair value through profit or loss do not lead to significant changes in financial data. The IFRS 9 classification model has minimal impact on subsequent measurements and financial outcomes of held-to-maturity investments. Loans and advances can still be measured at amortized cost, while accounts receivable are subject to changes at fair value. Overall, IFRS 9 introduces specific requirements for the professionalism of IT systems and Chinese accountants.

Suggestions for future research

This research analysed IFRS9 for China. The same idea can be expanded for future research for all countries of BRICS and compare them to observe how they adopt this standard in relation to the other emerging countries of BRICS and compare to find the advantages of each case.

Limitation

Due to factors such as vision, ability and length, as well as limited data, many places are not detailed and comprehensive, and more simple treatment is adopted. The research limitations of this paper mainly include:

First of all, this article uses the listed companies in the financial industry from 2016 to 2017 as a research sample. Only five of the A-share financial and insurance companies listed on the two exchanges in China's Shanghai and Shenzhen stock exchanges were selected. Therefore, the sample size is relatively small, which may affect the statistical results of the data and the empirical results. In the future research, the sample size will inevitably increase, which will help the accuracy of the verification results.

Secondly, the data in this paper is sorted by manual sorting. Some errors may occur due to manual collection. The conclusions from statistical analysis and empirical testing may also be affected. At the same time, due to the limited academic research of the author, the analysis of the impact of changes in accounting standards for international financial instruments may be subjective. In view of the lack of practical operation tests by the authors, relevant policy recommendations can only be drawn from the original text of the guidelines and from the perspectives of other literature.

In addition, due to the complexity and difficulty of the financial instrument accounting standards, limited to the thesis length and author research ability, only the analysis of major impacts, did not expand all the details one by one. In the future research and design, it is necessary to make efforts to make up for this deficiency, and strive to present a more comprehensive analysis of financial asset classification and measurement, better reveal the essence of the normative change, and provide useful reference for the formulation, improvement and application of the standard.

CONFLICT OF INTERESTS

The authors have not declared any conflict of interests.

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