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

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Key research findings

• Scope
  – Chinese non-financial listed companies
  – 2016-2019
  – Adoption of IFRS 9
    • Dual listed companies: 2018
    • Other companies: 2019

• Key research findings – implementing IFRS 9 imposes ‘severe implementation costs’
  – Alters companies’ behavior – significant increases in selling of AFS equity investments after the announcement of the new Standard
  – Significantly increases the audit fees
Contributions

• The authors contribute to literature by examining the implementation costs of IFRS 9 in China, an important setting.

• The paper provides evidence of implementation costs arising from IFRS 9, particularly on the increased use of fair value measurements for equity investments and the non-recycle requirement of OCI.
  – The research will contribute to the PIR of IFRS 9.

• The paper also enriches the literature on the economic consequences of applying specific accounting standards.
  – Whether accounting will encourage or discourage long-term investment?
Suggestions and questions (1)

• Whether the implementation cost increase solely came from IFRS 9?
  – IFRS 15 also became effective on 1 January 2018
  – IFRS 16 became effective on 1 January 2019

• What’s the motivations or reasons of bigger sale of AFS equity investments after the announcement of the new financial instruments standard:
  – Is it really because of the new accounting standards? Are there economic incentives behind it? China’s stock market performance in 2017 and 2018
  – Examine the composition of the AFS equity investments which were sold (and which were/are held)
    • For-sale assets or for-dividends assets?
    • Level 1, Level 2 or Level 3 assets?
Suggestions and questions (2)

• Whether the audit fee increases are simply due to the implementation of IFRS 9?
  – Examine and compare the audit fee increases of dual listed companies and domestic listed companies in 2018
  – Examine the average audit fee growth rate in recent years, particularly those of dual listed companies

• Whether it is possible to examine the benefits of implementing IFRS 9 and compare them with the implementation costs?
  – Changing from AFS equity investments to FVTOCI
    • Reduce the earnings management
    • Improve the transparency
    • Better reflect the investment purpose, strategy and its performance
  – Full cost-benefit analysis - Include financial entities