COMMITTEE OF EUROPEAN SECURITIES REGULATORS

Date: June 2009
Ref.: CESR/09-472

REPORT

CESR's supplementary report to the European Commission on the programmes of Canada, India and South Korea to converge with or adopt IFRS, on the level of application of Chinese accounting standards by Chinese issuers and on the use of third county GAAP on EU markets

Table of contents

Executive Summary

1. This report aims to fulfil a mandate received by CESR from the European Commission in February 2009 to provide it with an update on the reports on the convergence or adoption programmes in Canada, China, India and South Korea CESR had previously supplied in 2008. The mandate is designed to put the Commission in a position to provide an interim report on these countries to the Council and the European Parliament in line with its obligations under Commission Regulation (EC) 1569/2007 passed by the Parliament in December 2007.

2. The new mandate received from the Commission makes clear that CESR is only required to have regard in its work to publicly available information or to information made available by the regulators concerned upon request in writing. The mandate also makes clear that although the report produced under the new mandate will be used by the Commission to supplement information contained in earlier reports made by CESR when it updates the Council and the European Parliament, the new CESR report should not be considered to constitute further advice by CESR on the equivalence or otherwise of any of the GAAPs concerned.

3. Consequently this report is factual in nature, providing for information much of the source material that has been used to write it, and does not in any way seek to opine on the progress with regards to convergence or adoption achieved within the countries concerned. As this report is designed to update, it should be read in conjunction with the reports CESR has produced previously.

4. In performing the work, CESR has generally had recourse to the following sources of information:
   - A meeting with a member of the IASB;
   - An exchange of written communications with representatives of each of the relevant securities regulators or accounting standards setters;
   - Information publicly available on websites.

5. CESR's work indicates that in all cases, the countries concerned have made some progress in pursuing their convergence or adoption programmes since CESR prepared its original reports although in the case particularly of India, it must borne in mind that relatively little time has passed between this report and the date of CESR's previous report.

6. The report sets out in dedicated sections the results of CESR's work on each of the GAAPs.

I. Introduction

7. Under both the European prospectus and continuous reporting or transparency regimes third country issuers who have their securities admitted to trading on an EU regulated market or who wish to make a public offer of their securities in Europe, are required to produce financial reports either on the basis of IFRS adopted pursuant to EC Regulation 1606/2002 or on the basis of a third country's national accounting standards ("third country GAAP") equivalent to those standards.

8. In December 2007 the Commission published Regulation (EC) 1569/2007 "Commission Regulation establishing a mechanism for the determination of equivalence of accounting standards applied by third country issuers of securities pursuant to Directives 2003/71/EC and 2004/109/EC of the European Parliament and of the Council" ("Commission Regulation on the mechanism"). This Regulation established the conditions under which the GAAP of a third country can be considered equivalent to IFRS pursuant to a definition of equivalence set out in article 2. The Regulation also set out conditions in article 4 under which the accounting standards of other third countries could be considered acceptable for a limited period expiring no later than 31st December 2011.

9. In December 2008, the European Parliament passed an amendment to the Prospectus Regulation and a decision xxx which identify those countries who would be considered equivalent under article 2 or who could benefit from the transitional period under article 4.

10. The aim of granting this transitional period was to allow the standard setters and regulators of those countries concerned more time to pursue their existing programmes either to converge their existing accounting standards with or to adopt IFRS. The countries concerned were Canada, China, India and South Korea.

11. The Regulation also requires the European Commission to update the European Parliament at regular intervals on the progress that is being made by these countries with their respective programmes.

12. Consequently, in February 2009, CESR received a request[1] from the European Commission to produce for it by June 2009:
    - A report on the progress being made in Canada and South Korea to adopt IFRS and in India to converge with IFRS (such report to supplement the main assessment reports CESR had already produced on Canadian and South Korean GAAP (Ref/ CESR 08-293) and Indian GAAP (ref/ CESR 08-859) in 2008);
    - An assessment of the level of application of the substantially converged Chinese accounting standards by Chinese issuers in their first year of reporting using those standards; and
    - Information on the actual use on EU markets of those GAAPs already found equivalent (i.e. US and Japanese GAAP) and those found acceptable during the transitional period, namely Canadian, Chinese, Indian and South Korean GAAPs.

    This paper addresses the work CESR has performed to fulfil this mandate.

13. The new mandate received from the Commission makes clear that CESR is only required to have regard in its work to publicly available information or to information made available by the regulators concerned upon request in writing. The mandate also makes clear that although the report produced under the new mandate will be used by the Commission to supplement information contained in earlier reports made by CESR when it updates the European Parliament, the new CESR report should not be considered to constitute further advice by CESR on the equivalence or otherwise of any of the GAAPs concerned.

[1] The full mandate of the European Commission is provided as Annex I.

14. Consequently this report, aimed at fulfilling CESR's obligations under the new mandate, is factual in nature, providing for information much of the source information that has been used to write it, and does not in any way seek to opine on the progress with regards to convergence or adoption achieved within the countries concerned.

15. Within CESR, the operational group CESR-Fin chaired by Fernando Restoy, executive board member of the Spanish CNMV, has been charged with fulfilling the EC's request.

II. Update of CESR's reports on Canadian, South Korean and Indian GAAP

> Extract from the European Commission's mandate
> *"In this context, I (the Commission) would like to ask CESR for an update of the previous reports related to the changeover towards IFRS in the countries which recently received a transitional period acceptance by the EU (Canada, South Korea and India) by using public information obtained from the third country regulators concerned."*

Canadian GAAP

16. In its May 2008 advice (ref CESR/ 08-293), CESR conducted an assessment of the existing program to adopt IFRS in Canada. As requested by the Commission at the time, CESR's report focused in particular on whether the program was comprehensive and capable of being completed before 31 December 2011.

17. On the basis of this assessment, CESR drew the following conclusions in its report:
    - The Canadian Accounting Standard Board (AcSB) had made a public commitment in January 2006 to adopt International Financial Reporting Standards (IFRS) by 31 December 2011 and there was publicly available information giving details of both the program and the progress the Canadian Authorities had made towards achieving it;
    - Effective measures were being taken to secure a timely and complete transition to IFRS by the date indicated in the timetable published by the Canadian Regulatory Authorities; and
    - The Canadian authorities were showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) were involved in the adoption process.

18. To fulfil the new mandate and consequently to supplement its May 2008 advice, CESR has assessed the progress made by the Canadian authorities, in particular the AcSB, to achieve the objectives they have set by 31 December 2011. This assessment has been based on information from three sources:
    - A meeting with a member of the IASB;
    - An exchange of written communication with a representative of the Canadian securities regulator; and
    - Publicly available information issued by the AcSB, the Canadian Institute of Chartered Accountants (CICA) and Canadian securities regulators regarding the Canadian adoption program and its progress to date.

The Accounting Standards Board of Canada

19. CESR has had regard to the following documents, which have been published by the AcSB since CESR issued its 2008 report:
    - The list of IFRSs which are expected to apply to Canadian issuers at the changeover date in 2011. This list was published in November 2008.
    - A statement[2] published in December 2008 by the Chairman of the AcSB indicating that the adoption plan was still on target and that neither the effects of market turmoil nor the SEC's decision to delay the adoption of IFRS in the US were going to delay transition in Canada.
    - An Exposure Draft entitled "Adopting IFRS in Canada II" which was released in March 2009.

[2] See Annex II

20. In November 2008 following public consultation, the AcSB published the final list of IFRSs that are to apply in Canada at the changeover date. The publication dealt in particular with the following key questions:
    - Which IFRSs were expected to be applicable for the first year of adoption, namely the IASB's published 2007 bound volume of IFRS;
    - Which IFRSs were to be subjected to further scrutiny by the Standard Setters and which standards issuers could start to make plans to adopt straight away;
    - When new versions would be available for IFRSs that were known or likely to change by 2011; and
    - Which IFRS were due to be amended shortly after the Canadian adoption date and what the effects of such changes were likely to be.

21. The paper aims to assist Canadian issuers with their transition to IFRS by giving them a list of the standards that they are expected to apply, including those expected to be amended before the changeover date. Most IFRSs are not due to change between now and 2011 and those IFRS which are likely to change will be made available in an updated form in sufficient time for issuers to plan for the changeover. This forward planning is designed to put issuers in a position to make firm and informed decisions about accounting policy selection and to enable them to gather appropriate information to be able to properly implement such policies.

22. An Exposure Draft entitled "Adopting IFRS in Canada II" was also released in March 2009. This second omnibus exposure draft covered those IFRSs which had not been captured in the initial exposure draft published in April 2008 (e.g. revised IFRS 3, revised IAS 23, IFRIC 12, IFRIC 13, etc). It also clarified the definition of a "publicly accountable enterprise" (i.e. those entities caught by the IFRS adoption programme), confirmed the mandatory effective date for the adoption of IFRS by those enterprises affected and also confirmed that entities affected would be expected to apply IFRSs in their first interim financial statements in the year of adoption.

23. This Exposure Draft also exposed for public comment those standards and interpretations issued by the IASB since their 2007 bound volume and subsequently included in their 2008 bound volume (i.e, the body of IFRS in effect at 1 January 2008).

24. The AcSB also stated in this publication that it had considered the implications of recent events including the current financial market turmoil and found no reason to change its proposed mandatory effective date. According to the AcSB, adequate advance notice had been provided and many Canadian entities were proceeding well with their preparations for the changeover.

25. The AcSB plans to expose the changes made after the compilation of the 2008 bound volume either individually, or in a third and final omnibus Exposure Draft of IFRS later in 2009.

26. This process aims to ensure that, at any point in time, the most current version of IFRS is available for use by Canadian entities. Subject to comments received on the current 2008 omnibus Exposure Draft and, were relevant, any subsequent one, the AcSB proposes to incorporate all the IFRS exposed into a single publication.

The Canadian Institute of Chartered Accountants (CICA)

27. In October 2008, the CICA launched a free on-line course entitled "Introduction to IFRS – implications for Canadian Business". It also published a "Guide to IFRS in Canada". This guide provides an overview of the key aspects of the adoption of IFRS including a comparison of Canadian Standards to their IFRS counterparts prepared by the AcSB. This comparison highlights the key differences and notes any work in progress at the IASB that may affect the standard in the future. The guide also includes helpful information on the possible implications for issuers of adoption and tips on implementation.

The Canadian Securities Regulators

28. In June 2008 the Staff of the Canadian Securities Administrators (CSA) published an update of its concept paper published in February 2008 "*Possible changes to securities regulations relating to International Financial Reporting Standards*". This update, currently out for public consultation, addresses the following issues:
    - Early adoption of IFRS by domestic issuers before January 2011: the CSA staff recommends the granting of "exemptive relief" on a case by case basis to permit domestic issuers to prepare financial statements in accordance with IFRS as published by the IASB (IFRS-IASB) for financial periods beginning before January 2011.
    - Use of US GAAP: the CSA staff proposes retaining the existing option for a domestic issuer that is also an SEC registrant to use US GAAP.
    - Reference to IFRS-IASB or Canadian GAAP in the notes and audit report: the CSA staff concludes it is preferable for securities regulations to require domestic issuers to prepare their financial statements in accordance with IFRS-IASB, rather than Canadian GAAP, after the mandatory changeover date and that audit reports on such annual financial statements should refer to IFRS-IASB.

Involvement in the work of the IASB

29. Canada has recently increased its involvement in the development of IFRS at the IASB:
    - Paul Cherry, the former Chair of the AcSB (until 31 March 2009) has been appointed as Chair of the Standards Advisory Council (SAC), effective 1 January 2009.
    - Tricia O'Malley, another former AcSB Chair and member of the IASB, is now the Director of Implementation Activities for the International Financial Reporting Interpretations Committee (IFRIC), an interpretative body that reviews accounting issues in IFRS.
    - Jean Paré, a former member of the AcSB, and Vice President, Financial Reporting, Bombardier Inc., was appointed a member of IFRIC in July 2008.

30. CESR has been informed by the IASB that it is in almost constant communication with the AcSB and other organisations involved in the adoption programme and that they are well organised in bringing matters to the IASB's attention.

South Korean GAAP

31. In its May 2008 advice (ref CESR/ 08-293), CESR conducted an assessment of the adoption program for IFRS in South Korea. As requested by the Commission at the time, CESR's report focused in particular on whether the program was comprehensive and capable of being completed before 31 December 2011.

32. On the basis of the work described above, CESR drew the following conclusions:
    - The Korean Financial Supervisory Commission (KFSC) and the Korean Accounting Institute (KAI) had made a public commitment in March 2007 to adopt IFRS by 31 December 2011 and there was publicly available information giving details of both the program and the progress the South Korean authorities had made towards achieving it;
    - Effective measures were being taken to secure the timely and complete transition to International Financial Reporting Standards by the date indicated in the timetable published by the South Korean Regulatory Authority;
    - The South Korean authorities were showing a commitment to the adoption program and all stakeholders (companies, auditors, academics, the securities regulators, the IASB, etc.) were involved in the process.

33. To fulfil the new mandate and consequently to supplement its May 2008 advice, CESR has assessed the progress made by the South Korean authorities, in particular the Financial Supervisory Commission (FSC) and the (South) Korean Accounting Institute (KAI) to achieve the

objectives they have set by 31 December 2011. This assessment has been based on information from three sources:

- A meeting with the IASB;
- An exchange of written communications with a representative of the Financial Supervisory Commission; and
- Publicly available information issued by the KAI and the FSC regarding the Korean adoption program and its progress to date.

34. It should be noted however that CESR has found little information available in English.

The Korean Accounting Institute

35. On 31 December 2008, the KAI announced the publication of a full set of K-IFRSs. This publication followed a previous one in 2007 containing what the KAI termed "integral" K-IFRS. This second publication covers what the KAI now terms "non-integral" parts of K-IFRS (namely Implementation Guidance, Implementation Examples, Bases of Conclusion etc. that accompany each of the K-IFRS) but which have also been endorsed for use by South Korean companies.

36. The new or revised standards which have been released by the IASB since the publication of the K-IFRS in December 2007 have also been adopted and will be incorporated in the final volume of K-IFRSs.

37. The KAI has also begun a programme of courses aimed at educating CPAs and accounting staff within companies. With effect from May 2009, the KAI plans to extend its educational programme by holding regular educational sessions twice a month and by holding two special sessions in September and November 2009. The Korean Institute of Certified Public Accountants has also introduced a 'certification on IFRS education' course for CPAs. This course is mainly aimed at putting auditors in a position to be able to issue opinions on IFRS financial statements and consists of 50 hours of training in IFRS standards and interpretations.

The Korean Financial Supervisory Commission

38. In May 2008, the KFSC launched a website designed to disseminate information on IFRS, the chief objective of which is to provide users with regular updates on the IFRS roadmap and on relevant amendments made to laws and regulations as well as with implementation guidance, etc. This website is available only in Korean.

39. In July 2008, the KFSC published a regulation mandating companies to disclose an IFRS impact analysis in their financial statements two years before they adopt IFRS. In December 2008, a requirement to disclose the status of the transition to K-IFRS as well as the expected effect for first time adopters on their financial statements was added to K-IFRS 1 "Presentation of Financial Statements". In April 2009, the KFSC also published some illustrative examples of how this information should be disclosed in order to assist Korean issuers to apply the requirement:

    Two years before changeover to IFRS, issuers must disclose:

    - A description of their plans for transition to K-IFRS and a progress report to date; and
    - A list of the differences between those K-IFRSs and the equivalent Korean GAAP standards which are expected to have a significant impact on the financial statements

    One year before changeover to IFRS, issuers must disclose:

    - Updates on their plans for transition to IFRS and a progress report to date;
    - A list of the main differences between K-IFRSs and Korean GAAP;
    - A list of the entities included in the consolidated financial statements; and

- A statement of the impact of the transition to K-IFRS on the financial condition and performance of the issuer

40. In August 2008, the KFSC and the Korean Listed Companies Association jointly hosted an IFRS Symposium to discuss the implementation of IFRS in Korea. CESR was a guest speaker at this Symposium where it gave a presentation on the experience in Europe of implementing IFRS in 2005.

41. The KFSC, the KAI and several accounting firms have together set up an “IFRS Roadmap Implementation Task Force” with the objective of reviewing amendments made to laws and regulations and to monitor the progress made in implementing the roadmap. This task force held its first meeting on 31 March 2009.

42. In September 2008 the KFSC also set up an “IFRS Advisory Group for early adopters” which consists of regulators, accounting firms and companies. The Group aims to provide early adopters with advice and guidance during the transitional period. It seems however from the limited sources available to CESR that very few companies in South Korea have decided to adopt IFRS before the changeover date.

43. The KFSC has indicated to CESR that from July 2008 to February 2009, it has reviewed and amended several laws and regulations to align these with IFRS. The KFSC has also confirmed to CESR that as at the date of this report, the main changes required to be made to Korean law have in fact been made.

44. The KFSC has also indicated to CESR that it and the Korean Government have also considered the implications of recent events including the current financial market turmoil and found no reason to change their proposed mandatory effective date for transition.

Involvement in the work of the IASB

45. South Korea has one member in the SAC and a member of the KAI is seconded to the IASB staff.

46. CESR has been informed by the IASB that it is in regular communication with the KAI and the KFSC that they are bringing matters related to the South Korean transition to IFRS to the IASB’s attention with a view to resolving such matters. One of the chief issues currently being considered by the IASB on behalf of the South Koreans relates to accounting for assets purchased with foreign currency loans and a task force has been formed in which IASB staff (Mary Barth) or a board member takes part.

Indian GAAP

47. In its November 2008 advice (ref CESR/ 08-859), CESR conducted an assessment of the program to converge existing Indian Accounting Standards with IFRS. As requested by the Commission at the time, CESR’s report focused in particular on whether this program was comprehensive and capable of being completed before 31 December 2011.

48. On the basis of this assessment, CESR drew the following conclusions:
    - The Institute of Chartered Accountants in India (ICAI) had made, in July 2007, a public commitment to adopt International Financial Reporting Standards before 31 December 2011;
    - The Indian Government had confirmed publicly in May 2008, its intention to achieve convergence with IFRS by 2011;
    - The ICAI had noted that it might make modifications, (such as requiring additional disclosures, changing some terminology or omitting some options or alternative treatments) to IFRSs to reflect "Indian conditions". However, these changes were expected to be minor

and the stated intention of both the ICAI and the Indian Government was that Indian Accounting Standards would to all intents and purposes be fully IFRS compliant by the end of the program and that Indian issuers would therefore be in a position to make an absolute statement of compliance with IFRS in the notes to their accounts; and
- Effective measures were consequently being taken to secure the timely and complete convergence of Indian Accounting Standards to International Financial Reporting Standards by 31 December 2011.

49. To fulfil the new mandate and consequently to supplement its November 2008 advice, CESR has assessed the progress made by Indian authorities, in particular the ICAI towards achieving the objectives they have set themselves by 31 December 2011. This assessment has been based on information from three sources:
    - A meeting with the IASB;
    - An exchange of written communication with a representative of the ICAI; and
    - Publicly available information issued by the ICAI regarding the Indian adoption program and its progress to date.

50. It should be noted that CESR originally published its report on Indian GAAP, which gave an up to date picture of the status of the programme in India, as recently as 14 November 2008. Consequently in real terms only a relatively short period of time has elapsed between CESR's first reporting on Indian GAAP and the publication of this report under the new mandate.

The Institute of Chartered Accountants of India

51. The ICAI's Accounting Standards Board (ASB) is currently in the process of modifying Indian Accounting Standards to the extent necessary to converge them totally with IFRS. The ICAI has also reiterated in a recent public presentation that its ultimate objective remains that financial statements prepared under the revised Indian accounting standards will be <u>IFRS compliant</u> and that issuers will therefore be in a position to make an absolute statement of compliance with IFRS in their notes. The ASB is also working on transitional guidance on IFRS which it expects to issue in the 4th quarter of 2009.

52. The detailed work programme of the ASB is set out in Annex III.

53. A number of conflicting legal and regulatory requirements which might hinder convergence have been identified by the ICAI and are at the moment being addressed by the relevant regulatory bodies (Ministry of Corporate Affairs and SEBI). An exhaustive list of all these relevant legal issues is not publicly available and consequently has not been provided to CESR for the purposes of this assessment.

54. The ICAI has also indicated to CESR that it sees no reason to change its proposed mandatory effective date for transition nor to believe that convergence with IFRS might not be achieved within the timeframe i.e. by 2011.

55. In November 2008, the ICAI launched a Certificate Course on International Financial Reporting Standards for its members in several cities on the sub-continent. The objective of this course is to enhance the IFRS knowledge of its members as well as to provide benefit to them in the global service market. Several seminars and workshops on IFRS were also organised by the ICAI in the beginning part of 2009.

Involvement in the work of the IASB

56. India has recently increased its involvement in the development of IFRS at the IASB. As of 1st of January 2009, Prabhakar Kalavacherla has been appointed as a board member of the IASB. He

is a member of both the ICAI and the American Institute of Certified Public Accountants. India is also represented by one member in the SAC.

57. India also has one trustee as a member of the IASCF.

58. The IASB and the ICAI expect to meet up twice a year to discuss the issues which relate to the transition to IFRS in India, the last such meeting taking place in May 2009.

III. Information on the level of application of Chinese accounting standards by Chinese issuers

Extract from the European Commission's mandate
"In addition, I would like to ask you for enhanced advice on the situation in China, where we would like to have information on the level of application of the substantially converged Chinese Accounting Standards for Business Enterprises on the basis of available reports."

59. In its March 2008 advice (ref CESR/ 08-179), CESR recommended that the European Commission postpone a final decision on the equivalence of Chinese GAAP until there was more information on the application of the new Chinese accounting standards. This recommendation was based on CESR's belief that evidence of adequate implementation was important in the context of an outcome-based definition of equivalence. CESR however also recommended that the Commission allow Chinese issuers to continue to use Chinese GAAP when accessing EU markets and therefore to accept Chinese GAAP under article 4 of the Commission Regulation on the mechanism until such time as there was adequate evidence to enable a decision to be made under article 2 thereof.

60. In line with requests contained in some responses from the market to its consultation paper on its assessment of Chinese GAAP, CESR also offered in its advice to the Commission to undertake at a later stage additional work to assess whether Chinese GAAP had been properly applied by Chinese issuers.

61. As stated in the introduction to this report, the European Commission has now requested CESR to undertake limited additional work to assess whether Chinese Accounting Standards for Business Enterprises (ASBEs) are being properly applied by Chinese issuers. In order to do this, CESR was to obtain appropriate evidence relating to the application of ASBEs by Chinese issuers.

62. As for its work on Canadian, Indian and South Korean GAAPs, the new mandate received from the Commission makes clear that in relation to Chinese GAAP also, CESR is only required in performing its work to have regard to publicly available information or to information made available by the Chinese Regulator upon request in writing. Similarly, although CESR's report on Chinese GAAP will be used by the Commission to supplement the information contained in earlier reports made by CESR when it updates the European Parliament, the new CESR report will not be considered to constitute further advice by CESR on the equivalence or otherwise of Chinese GAAP.

63. In November 2008 the Chinese Ministry of Finance published a report on "the implementation of Chinese New Accounting Standards by Chinese issuers in 2007". An English version of this report was also sent to CESR and forms the main source of information used by CESR to fulfil the new mandate.

64. The main conclusions of the report are the following:
    - The implementation of the new ASBEs went smoothly and has been achieved without major disruption to the Chinese markets or to the reporting cycle.
    - The Chinese Ministry of Finance believes that the move to ASBEs has improved the quality and the reliability of financial reporting in China, mainly due to increased transparency of disclosures.
    - The Ministry also believes that the converged-ASBEs are both making the Chinese market more attractive to overseas issuers and putting Chinese issuers in a better position to access international markets.
    - Nevertheless, the Ministry has also identified a number of areas in the 2005 financial statements where the level of compliance could be improved or where it was felt issuers

had experienced difficulties in identifying acceptable applications under the standards concerned.

65. The Ministry intends to take measures to improve the application of the new standards in future reporting periods.

66. A copy of the full report is provided as Annex IV to this report.

67. CESR has also had a limited exchange of written communication with a member of the Chinese Ministry of Finance in order to prepare this report.

68. The IASB reports that it currently has no Chinese representative at the IASB - this situation is expected to be resolved by September - but it visits China twice a year to discuss issues related to application of ASBEs. CESR has also been informed that China was one of the key drivers behind the formation of the Asia Oceania Standard Setters Group. This group has been formed to lobby on accounting issues on behalf of Pacific Rim countries (including India) and is expected to meet twice a year, its first meeting taking place in China in April 2009. The IASB has informed CESR that the Asia Oceania Group is actively committed to providing comments on all the IASB's consultations and exposure drafts.

Conclusion on GAAP updates

69. Although the Commission's mandate to CESR concerning the GAAPs reviewed in this report is factual in nature, and therefore does not require CESR to opine on the results of the work it has undertaken, it is clear that in relation to all the GAAPs concerned some progress towards convergence or adoption has been made in all of the countries since CESR prepared its original reports. It should however be borne in mind particularly in the case of India that in fact relatively little time has expired since the production of that first report.

IV. Use of equivalent or transitionally accepted GAAP on EU markets

Extract from the European Commission's mandate
"Finally, I would also like to ask you whether it is possible to provide the Commission with an update of relevant information on the actual use of the equivalent third country GAAPs on the EU markets, including their use by issuers from other third countries, for example from Russia."

70. The following table gives information on the number of issuers using any of the two equivalent or four transitionally accepted GAAPs and which have been admitted to trading on a regulated market in the European Union.

71. The figures have been provided to CESR upon a request submitted to its members. The list represents the most up to date information that is available at the date of the report.

72. It is important to note that CESR has not validated the information it has received from its members and therefore there remains the possibility that some issuers may have been double-counted if they have securities admitted in more than one Member State and/or if they have admitted different types of securities in the same or in several Member States.

Country	Number of US GAAP users		Number of Japanese GAAP users	Number of Chinese GAAP users	Number of Korean GAAP users	Number of Canadian GAAP users	Number of Indian GAAP users	Number of Taiwanese GAAP users	Number of Brazilian GAAP users
	US entities	non-US entities							
Austria	1	0	0	0	0	0	0	0	0
Czech Rep	0	1	0	0	0	0	0	0	0
France	17	4	0	0	0	0	0	0	0
Germany	28	4	0	0	0	0	0	0	0
Ireland	20	23	0	0	0	0	0	0	12
Italy	1	1	0	0	0	0	0	0	0
Luxembourg	109	19	11	0	22	16	37	16	12
Norway	2	7	0	0	0	5	0	0	0
Poland	1	0	0	0	0	0	0	0	0
Spain	3	0	0	0	0	0	0	0	0
Sweden	1	4	0	0	0	1	0	0	0
NL	6	5	0	0	0	2	0	0	0
UK	55	46	45	8	21	30	23	6	0
Total	**244**	**114**	**56**	**8**	**43**	**54**	**60**	**22**	**24**

73. A list by country of origin of the 124 non-US issuers applying US GAAP is provided below:

	Czech Rep	France	Germany	Ireland	Italy	Luxembourg	Norway	Sweden	NL	UK	**Total**
Bermuda	1	0	0	0	0	3	5	0	0	3	**12**
Cayman Islands	0	0	0	23	0	5	0	0	0	5	**33**
Switzerland	0	2	0	0	1	0	0	4	0	2	**9**
Israel	0	0	4	0	0	0	1	0	0	1	**6**
Brazil	0	0	0	0	0	1	0	0	0	0	**1**
Liberia	0	0	0	0	0	0	1	0	0	0	**1**
Channel Islands	0	0	0	0	0	0	0	0	5	9	**14**
Russia	0	0	0	0	0	3	0	0	0	11	**14**
Panama	0	0	0	0	0	0	0	0	0	1	**1**
Argentina	0	0	0	0	0	0	0	0	0	1	**1**
Jersey	0	0	0	0	0	2	0	0	0	0	**2**
Philippines	0	0	0	0	0	1	0	0	0	0	**1**
Honduras	0	0	0	0	0	1	0	0	0	0	**1**
Venezuela	0	0	0	0	0	1	0	0	0	0	**1**
Japan	0	1	0	0	0	1	0	0	0	13	**15**
NL Antilles	0	1	0	0	0	1	0	0	0	0	**2**
Total	**1**	**4**	**4**	**23**	**1**	**19**	**7**	**4**	**5**	**46**	**114**

V. Annexes

Annex I - Mandate from the European Commission

EUROPEAN COMMISSION
Internal Market and Services DG

FREE MOVEMENT OF CAPITAL, COMPANY LAW AND CORPORATE GOVERNANCE

The Director

Brussels, 13 FEV. 2009
DG MARKT 3/JIH/MK/pb (2009) - 26698

Committee of European Securities Regulators
Mr. Eddy Wymeersch
Chairman
11-13 Avenue de Friedland
75008 PARIS - FRANCE

Subject: **Request for further assistance concerning the monitoring of the developments of certain third country GAAPs with regard to their equivalence under the Transparency Directive and Prospectus Regulation**

Dear Mr. Wymeersch, Eddy

As you know, on 12 December 2008, the Commission adopted the Commission Decision[1] and Commission Regulation[2] establishing equivalence of certain third country GAAPs pursuant to the Transparency Directive and Prospectus Directive and Regulation. In these legal measures, the Commission recognises the equivalence of the IFRS as issued by the IASB and of the Japanese and U.S. GAAPs and, furthermore, decides to accept the GAAPs of China, India, South Korea and Canada within the EU for a transitory period ending no later than on 31 December 2011.

We greatly appreciate the excellent cooperation between the services of DG MARKT and those of the CESR followed by the adoption of the aforementioned legal measures determining equivalence and look forward to further cooperation.

According to Article 1a of the aforementioned Commission Decision and Article 2 of the Commission Regulation, the Commission is required to continue monitoring the efforts made by third countries towards a changeover to IFRS and submit a report on progress made in this regard to the European Parliament and to the European Securities Committee during 2009. We intend to prepare such a report by September 2009.

In this context, I would like to request CESR for an update of the previous reports related to the changeover towards IFRS in the countries which recently received a transitional period acceptance by the EU, (i.e. China, Canada, South Korea and India) e.g. by using

[1] Commission Decision 2008/961/EC of 12 December on the use of third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to prepare their consolidated financial statements, OJ L 340, 19.12.2008, p. 112

[2] Commission Regulation (EC) No 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards elements related to prospectuses and advertisements, OJ L 340, 19.12.2008, p. 17

Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium.
Telephone: (32-2) 299 11 11.
http://ec.europa.eu/internal_market/

public information or written information obtained from the third country regulators concerned.

In addition, I would like to ask you for enhanced advice on the situation in China, where we would like to have information on the level of application of the substantially converged Chinese Accounting Standards for Business Enterprises on the basis of available reports.

Finally, I would also like to ask you whether it is possible to provide the Commission with an update of relevant information on the actual use of the equivalent third country GAAPs[3] on the EU markets, including their use by issuers from another third countries, for example from Russia. We are quite often addressed with requests for such quantitative information.

We would be grateful to receive your advice by the end of May 2009. My services are ready to discuss this request further with the staff of the CESR Secretariat and to exchange relevant information.

Yours sincerely,

Pierre DELSAUX

[3] i.e. U.S., Japanese, Canadian, Chinese, South Korean and Indian GAAP

Annex II – Statement by the Chairman of the AcSB

FYI accounting standards

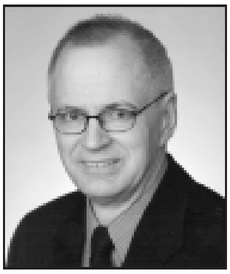
ACTIVITIES OF THE CANADIAN ACCOUNTING STANDARDS BOARD AND STAFF

SPECIAL EDITION 2008

IN THIS ISSUE

See our website at www.acsbcanada.org for the most recent information on activities in progress.

MESSAGE FROM THE CHAIR



2008 has presented some extraordinary challenges. The continued suspension of trading in non-bank-sponsored asset-backed commercial paper in Canada and, more recently, the severe global credit crunch, have resulted in fresh insights, and much-needed additional implementation guidance, in determining fair values when an active market does not exist. The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) will be under pressure to converge and simplify the financial instruments standards as soon as possible. I sense an increased commitment in the international community to robust global accounting standards and to the continued independence of the standard setting function.

Will current market conditions delay our transition to International Financial Reporting Standards (IFRSs) in 2011? In a word, "no." We continuously monitor these events to ensure our strategy remains sound. The current market conditions demonstrate just how closely linked the global capital markets are today and thus reinforce the case for global accounting standards. The momentum for IFRSs as the global standards continues to build. The adoption of IFRSs in the United States may be delayed somewhat but I detect no wavering in their commitment to the ultimate goal of convergence. In November 2008, the US Securities and Exchange Commission (SEC) published its much-awaited "Roadmap," for comment which sets out a time line for adoption of IFRSs by US public companies.

The AcSB's Private Enterprise Advisory Committee and staff have put a huge effort into developing a new, simplified basis of reporting for private enterprises. We hope that this new system can easily be adapted to the needs of our not-for-profit sector as well. We plan to issue an exposure draft early next year and have the new system in place by December 2009. My sincere thanks to all those who helped organize and participated in the various discussions of this vital project.

Paul Cherry

Annex III – Work programme of the ASB of the ICAI

At the date of this report, various AS issued by the ICAI are reviewed by the National Advisory Committee on Accounting Standards (NACAS) constituted by the Indian Central Government.

S No.	Status	Number. of Standards
1	ASs cleared by Council and NACAS for notification even before 1st April 2011 (AS 2 and AS 3)	2
2	ASs cleared by NACAS and to be issued as Exposure Draft (AS 1, AS 7 and AS 16)	3
3	Drafts considered by ASB and have been circulated among specified bodies and NACAS (AS 29 and AS 33)	2
4	Drafts considered by ASB and are being finalised for circulation among specified bodies and NACAS circulated among specified bodies and NACAS (ASs 4,11,15 and 25)	4
5	Drafts which will be considered by ASB at its subsequent meetings (ASs 19 and 24 ASs corresponding to, IFRS 6, IFRS 8, IAS 8,18, 27, 28, 33, 40, 41)	11
6	ASs, which are being issued (which are virtually as per IAS) [AS 10(except few differences) and AS 12]	2
7	Accounting Standards which are almost converged and only require changes with regard to subsequent amendments made on IAS (AS 30, 31, 32)	3
8	Drafts which are under preparation and are yet to be received from Study Groups (AS corresponding to IFRS 1,IFRS 3, IFRS 4, IAS 12, 26, 29, 36, 38)	8
9	Accounting Standards which are not being revised as corresponding IFRS/IAS are under revision which is expected to be completed by March 31, 2009 (AS 18, 27)	2

.

Annex IV – Report from Chinese Ministry of Finance on the application of Chinese accounting standards by Chinese issuers

Analysis Report on the Implementation of New Accounting Standards by Chinese Listed Companies in 2007

Accounting Regulatory Department, Ministry of Finance

Year 2007 is the first year of the implementation of the Accounting Standards for Business Enterprises (ASBE) system fully by Chinese listed companies. As one of the capital market rules, the ASBE system has great significance in promoting the sustainable development of enterprises and improving the capital market. On that ground, Accounting Regulatory Department of Ministry of Finance (MoF) cooperated with related parties to set up the working group on the implementation of new Standards, formulated the implementation scheme, put more emphasis on the interviews with listed companies and accounting firms, developed an analysis system for financial reports of listed companies, organized a strong analysis group, and tracked and analyzed annul reports 2007 of all listed companies by way of "real time monitoring the stock market, analyzing the target group company by company", after more than 5 months' hard work, finally resulted in this report.

I. ASBE was implemented smoothly and effectively in listed companies

In accordance with related regulations in China, all the audited 2007 annual reports of listed companies shall be publicly disclosed by April 30,

2008. The actual situation is, during the period from the publication of first 2007 annual report of listed companies in Shanghai and Shenzhen stock markets on January 22, 2008 to April 30, 2008, except for *ST WEIDA (000603) and JIUFA (600180), totally 1,570 listed companies in Shanghai and Shenzhen stock markets (861 in Shanghai and 709 in Shenzhen) published their 2007 annual reports, including 1,543 non-financial listed companies, 27 financial listed companies and 53 A+H-share listed companies. The comprehensive and in-depth analysis of 2007 annual reports published by listed companies shows that the implementation of the ASBE system was smooth and effective.

A. Listed companies realized a good transition from the old to new ASBE from late 2006 to early 2007

1. Overview of the transition from the old to new Standards in listed companies

Up to April 30, 2008, 1,557 listed companies out of the total 1,570 in Shanghai and Shenzhen stock markets disclosed the *Reconciliation Statement of Differences in Shareholders' Equity between New and Old Accounting Standards* (849 in Shanghai stock market and 708 in Shenzhen). 13 listed companies didn't disclose relevant data. After adjusted in accordance with the new Standards, the total shareholders' equity of 1,557 listed companies at beginning of 2007 is 4,562.549 billion yuan, the total shareholders' equity reflected by the old Standards (Accounting System for Business Enterprises and Accounting System for Financial Enterprises) on December 31, 2006 is 4,148.664 billion yuan, and the former is 100.267 billion yuan more than the latter (after deducting Minority Interests), with a growth of 2.42%. The analysis shows that, the net assets of listed companies at beginning of 2007 recognized and measured in accordance with internationally converged new accounting standards is 2.42% higher than those recognized and measured in accordance with the old Standards. Obviously, listed companies realized a good transition from the old to new Standards in accordance with ASBE No. 38—First time adoption of Accounting Standards for Business Enterprises and relevant regulations on the first adoption date (January 1, 2007). Relevent data are shown in Exhibit 1.

Exhibit 1: **Summary of Reconciliation Statement of Differences in Shareholders' equity between New and Old Accounting Standards**

Currency Unit: 100 million yuan

No.	Items	Number of Companies	Amount	% *
a	Shareholders' equity on December 31, 2006 (old Standards)	1,557	41,486.64	—
1	Differences in long-term equity investments	737	-160.78	-0.39%
2	Investment properties to be measured in fair value model	14	39.29	0.09%
3	Accrued depreciation of previous years for estimated assets decommissioning expenses, etc.	6	-25.77	-0.06%
4	Termination benefits qualified for the recognition criteria of provisions	149	-114.39	-0.28%
5	Share-based payment	8	-5.64	-0.01%
6	Restructuring obligations qualified for the recognition criteria of provisions	4	-1.26	-0.00%
7	Business combination	166	335.81	0.81%
8	Financial assets at fair value through profit or loss and available-for-sale financial assets	454	795.04	1.92%
9	Financial liabilities at fair value through profit or loss	11	-0.37	-0.00%
10	Equity increased by separation of financial instruments	19	-6.56	-0.02%
11	Derivative financial instruments	31	-4.83	-0.01%
12	Income tax	1,360	-1.43	-0.00%
13	Minority Interests	1,267	3,136.18	7.56%
14	Special retrospective adjustments to listed companies such as B-share and H-share	14	-5.03	-0.01%

Continue

No.	Items	Number of Companies	Amount	% *
15	Others	616	158.59	0.38%
b	Total adjustments	—	4,138.85	9.98%
c	Net increase in shareholder's equity	—	1,002.67	2.42% **
d	Shareholders' equity on January 1, 2007 (new Standards)	1,557	45,625.49	—

* item% = adjustment amount of item/shareholders' equity under old Standards

** change rate of shareholders' equity = (shareholders' equity under new Standards-Minority Interests-shareholders' equity under old Standards) / Shareholders' equity under old Standards

2. Analysis of items of which shareholders' equity at beginning of year has a large adjusting increase

"Business Combination" involves 166 listed companies, with 33.581 billion yuan increase (0.81%) in the adjustment of their shareholders' equity at beginning of year. When preparing consolidated comparative statements for business combination under the common control, it shall be considered as all the participants in the combination existing as the current situation when the final controlling party begins to control. Capital reverses and retained earnings under shareholders' equity in comparative statements shall be adjusted with the net assets increased from the business combination.

"Financial assets at fair value through profit or loss and available-for-sale financial assets" involves 454 listed companies, with 79.504 billion yuan increase (1.92%) in the adjustment of their shareholders' equity at beginning of year. In accordance with the new Standards, these two types of financial assets shall be measured at fair value on the balance sheet date, and their shareholders' equity at beginning of year shall be adjusted with the difference between fair value and original carrying amount. Because Chinese stock market was in the boosting period on the first adoption date, the increase in shareholders' equity from the adjustment of this item is large, especially for listed financial companies.

Notice that "Minority Interests" involves 1, 267 listed companies (81. 37% of the total 1, 557), with an increase of 313. 618 billion yuan (7. 56%) in the adjustment of their shareholders' equity at beginning of year. It shall be removed from the total shareholders' equity, because "Minority Interests" under the old Standards is separately listed, while it is included in shareholders' equity under the new Standards. Therefore, it belongs to the amount influenced by the change of items of financial statements.

3. Analysis of items of which shareholders' equity at beginning of year has a large adjusting decrease

"Differences in long-term equity investments" involves 737 listed companies, with a decrease of 16. 078 billion yuan (−0. 39%) in their shareholders' equity at beginning of year. In accordance with the new Standards, all the balance of unamortized equity investments difference of the long-term equity investments arising from the business combination under the common control shall be written off on the first adoption date and correspondingly decrease shareholders' equity at beginning of year.

"Termination benefits qualified for the recognition criteria of provisions" involves 149 listed companies, with a decrease of 11. 439 billion yuan (−0. 28%) in the adjustment of their shareholders' equity at beginning of year. In accordance with the new Standards, a company shall estimate the compensation payable qualified for the recognition criteria of termination benefits before the first adoption date, decrease shareholders' equity at beginning of year, and at the same time recognize employee benefits payable.

From the above analysis, we can see that although large adjustments were made to some items in the transition from the old to new Standards, the total amount after offsetting remained largely unaffected, so the transition was smooth. At the same time, there were very few listed companies

made large adjustments to shareholders' equity during the transition from the old to new Standards, and there were still 13 listed companies that didn't disclose the *Reconciliation Statement of Differences in Shareholders' Equity between New and Old Accounting Standards* in accordance with the regulations, which shall be noticed.

B. After the transition from the old to new Standards in listed companies, the ASBE System is implemented comprehensively and smoothly

1. Growth of profit before tax and net profit and factors analysis

Profit before tax and net profit realized by 1, 570 listed companies was respectively 1, 363. 402 billion yuan and 1, 011. 764 billion yuan in 2007, and 920. 122 billion yuan and 676. 508 billion yuan in 2006. Total profit increased 443. 280 billion yuan, and net profit increased 335. 256 billion yuan, respectively increased by 48. 18% and 49. 56% on a year-to-year basis. Related data are shown in Exhibit 2.

Exhibit 2: Main indicators in consolidated income statements of listed companies in 2007

1, 570 companies Currency Unit: 100 million yuan

Items	2007	2006	Amount (+/−)	+/− %	% of total profit*
Gross operating profit	10, 160. 51	7, 593. 56	2, 566. 95	33. 80%	74. 52%
Gain from changes in fair value	117. 23	241. 64	−124. 41	−51. 49%	0. 86%
Investment gains	2, 950. 50	1, 170. 05	1, 780. 44	152. 17%	21. 64%
Operating profit	13, 148. 16	9, 056. 26	4, 091. 90	45. 18%	96. 44%
Net non-operating profit	485. 86	144. 96	340. 90	235. 16%	3. 56%
Profit before tax	13, 634. 02	9, 201. 22	4, 432. 80	48. 18%	100. 00%
Income tax expense	3, 516. 38	2, 436. 14	1, 080. 24	44. 34%	25. 79%
Net profit	10, 117. 64	6, 765. 08	3, 352. 56	49. 56%	74. 21%

* Item that contributes to realized profit in 2007/Profit before tax

The main factor that caused the growth of Profit before tax and net profit of listed companies in 2007 is operating profit. Total operating profit realized by 1, 570 listed companies was 1, 314. 816 billion yuan (96. 44% of Profit before tax), with an increase of 409. 190 billion yuan (45. 18%) compared with 2006. If calculated with the operating profit after deducting the investment gains, it was still 74. 80% of profit before tax. The growth of operating profit is the main determinant of the growth of profit before tax and net profit of listed companies, and operating profit is the gain from daily business which reflects the growth of business performance of listed companies in 2007, so it appeared to be a normal trend of economic growth.

As a part of operating profit, investment gains realized by 1, 570 listed companies were totally 295. 050 billion yuan (21. 64% of profit before tax), with an increase of 178. 044 billion yuan (152. 17%) compared with 2006. The main cause of the increase in investment gains is the gain realized by the sale of investments by listed companies in 2007. 1, 570 listed companies realized 254. 757 billion yuan gain by selling investments, with an increase of 158. 176 billion yuan (163. 78%) compared with 2006, which was 18. 69% of profit before tax. The gain from the sale of investments is once-and-for-all, and it only affects the amount of 2007, so it has no sustainable influence on the performance of listed companies. Therefore, the listed industrial companies should have good performance in their main business so that they could realize the sustainable development, and boost the continuous growth of social wealth; otherwise, it shall belong to the redistribution of social wealth.

Besides operating profit, net non-operating profit of 1, 570 listed companies was totally 48. 586 billion yuan (3. 56% of profit before tax), with an increase of 34. 090 billion yuan (235. 17%) compared with 2006. Non-operating income mainly comes from debt restructuring, donations, government grants and disposal gains of long-term assets. The influence of net non-operating profit on the profit of companies is non-regular.

The above analysis shows that the growth of profit before tax and net profit of listed companies mainly came from the operating profit, thus set up the foundation of the growth of profit before tax and net profit in 2007. At the same time, some factors in the growth of investment gains and net non-operating profit, such as stock sale gains, debt restructuring gains and donations gains, should be noticed and further researched.

2. Growth of net assets and factors analysis

Total net assets of 1, 570 listed companies on December 31, 2007 were 6, 838. 971 billion yuan, with an increase of 1, 616. 939 billion yuan (30. 96%) compared with 2006 (5, 222. 032 billion yuan). The rate of return on net assets was also higher than last year (12. 95%), which reached 14. 79%. Related data are shown in Exhibit 3.

Exhibit 3: Main indicators in consolidated balance sheet of listed companies in 2007

1, 570 companies Currency Unit: 100 million yuan

Items	2007	2006	Amount (+/-)	+/- %
Financial assets at fair value through profit or loss	4, 894. 29	3, 992. 07	902. 22	22. 60%
Current assets, total	111, 450. 73	75, 938. 99	35, 511. 74	46. 76%
Available-for-sale financial assets	32, 083. 29	28, 457. 65	3, 625. 64	12. 74%
Held-to-maturity investments	41, 008. 02	33, 896. 54	7, 111. 48	20. 98%
Long-term equity investments	4, 051. 32	3, 565. 77	485. 54	13. 62%
Fixed assets	36, 191. 48	32, 512. 94	3, 678. 55	11. 31%
Intangible assets	3, 326. 10	2, 645. 71	680. 39	25. 72%
Deferred tax assets	969. 31	961. 79	7. 51	0. 78%
Non-current assets, total	305, 091. 44	264, 249. 46	40, 841. 98	15. 46%
Total assets	416, 542. 17	340, 188. 45	76, 353. 72	22. 44%
Employee benefits payable	1, 803. 03	1, 475. 34	327. 69	22. 21%
Current liabilities, total	326, 673. 30	269, 726. 15	56, 947. 15	21. 11%
Provisions	551. 51	491. 00	60. 51	12. 32%
Deferred tax liabilities	952. 76	488. 89	463. 87	94. 88%
Non-current liabilities, total	21, 479. 17	18, 241. 97	3, 237. 19	17. 75%

Continue

Items	2007	2006	Amount (+ / -)	+/- %
Total liabilities	348, 152. 47	287, 968. 12	60, 184. 34	20. 90%
Share capital	22, 571. 09	21, 002. 86	1, 568. 23	7. 47%
Capital surplus	22, 401. 61	14, 390. 81	8, 010. 80	55. 67%
-: Treasury stock	0. 97	2. 81	-1. 85	-65. 71%
Surplus reserve	5, 475. 50	4, 635. 46	840. 05	18. 12%
General risk reserve	1, 573. 76	653. 80	919. 96	140. 71%
Unappropriated profit	12, 129. 60	7, 709. 55	4, 420. 05	57. 33%
Translation difference of foreign currency financial statements	-183. 90	-40. 46	-143. 44	354. 51%
Items attributable to the parent company's owner's equity, total	63, 966. 70	48, 501. 94	15, 464. 76	31. 88%
Minority Interests	4, 423. 01	3, 718. 39	704. 62	18. 95%
Total shareholders' equity	68, 389. 71	52, 220. 32	16, 169. 39	30. 96%
Total Liabilities and shareholders'equity	416, 542. 17	340, 188. 45	76, 353. 72	22. 44%

Main causes of the growth of net assets:

1. The causes such as stock price appreciation income from new or additional issuances by listed companies in 2007 increased 651. 957 billion yuan (40. 25% of the increase of net asset) in capital surplus. It shows that there were many IPO companies in 2007, thus the increased capital surplus occupied a large portion of the total.

2. The change in fair value of available-for-sale financial assets increased 149. 123 billion yuan (9. 22% of the increase of net assets) on a year-to-year basis. It shows that the stock price of financial assets classified as available-for-sale of listed companies appreciated greatly in 2007, which resulted in the inclusion of the change of fair value of available-for-sale financial assets in capital surplus.

3. Net profit realized by listed companies in 2007 increased net assets, which reflects that the wealth directly created by the producing and

operating activities increased 335. 256 billion yuan (20. 73% of the increase of net assets) on a year-to-year basis.

C. After the implementation of ASBE in 2007 by listed companies issuing A-Shares and H-shares simultaneously, the differences between the disclosed annual reports of mainland and Hong Kong are basically eliminated

Out of the total 1, 570, 53 listed companies issued H-shares simultaneously in Hong Kong. Besides disclosing annual reports in A-share market in accordance with ASBE, these companies also provided annual reports in H-share market in accordance with Hong Kong Financial Reporting Standards (HKFRS).

1. Comparison of net profit in annual reports of A + H-share listed companies

The net profit of 53 A + H-share listed companies reported in accordance with HKFRS in 2007 was 648. 851 billion yuan, and was 619. 808 billion yuan reported in accordance with ASBE. The difference was 29. 043 billion yuan, and the difference ratio was 4. 69%; out of them, 6 listed companies had no difference in net profit: CHINA MERCHANTS BANK (600036), TIANJIN CAPITAL (600874), CHINA OILFIELD SERV (601808), CONSTRUCTION BANK (601939), ZTE CORP (000063) and TEXTILE MACHINERY (000666).

2. Comparison of net assets in annual reports of A + H-share listed companies

The net assets of 53 A + H-share listed companies reported in accordance with HKFRS in 2007 were 3, 933. 531 billion yuan, and were 3, 824. 858 billion yuan reported in accordance with ASBE. The difference was 108. 673 billion yuan, and the difference ratio was 2. 84%; out of them, 10 listed companies had no difference in net assets: CHINA SHIP DEV (600026), CHINA MERCHANTS BANK (600036), TSINGTAO BEER (600600), GUANGZHOU SHIPYARD (600685), TIANJIN CAP-

ITAL (600874), CRCC (601186), CHINA OILFIELD SERV (601808), CONSTRUCTION BANK (601939), ZTE CORP (000063) and TEXTILE MACHINERY (000666).

3. Analysis of existing differences of A + H-share listed companies

In accordance with the annual reports of 53 A + H-share listed companies, the main causes of the existing differences of net profit and net assets of A + H-share listed companies are as follows:

a. Differences from assets appraisal in the company restructuring. It involves 36 listed companies. In accordance with related laws and regulations of mainland, an enterprise shall appraise its assets and liabilities during the company restructuring, and recognize them as costs of related assets and liabilities on the basis of the appraisal value; in H-share reports, some are adjusted to the original carrying amount before the restructuring, and others are reported at the revaluation value. The resulted difference of net assets between financial reports of two markets was totally 14.462 billion yuan (13.31% of the total difference).

b. Differences from business combination under the common control. It involves 15 listed companies. In accordance with ASBE, the business combination under the common control shall account with method similar to the pooling-of-interest method; HKFRS chooses to use the acquistion method. The inconsistent accounting policies in two jurisdictions resulted in 438 million yuan difference (1.51% of the total difference) between net profits in financial reports of two markets.

c. Differences from the assets depletion method. In accordance with ASBE, the depletion of oil assets of certain enterprises shall be accrued with the unit-of-production method or the straight-line method. In practice, companies used the straight-line method to accrue the depletion of oil and gas assets in A-share reports and the unit-of-production method in H-share reports.

In the differences between the annual reports of A + H-share listed

companies caused by the above factors, after eliminating the existing differences between two companies, the difference between net profits will shrink from 29.043 billion yuan to 6.545 billion yuan, and the difference ratio will shrink from 4.69% to 1.46%; the difference between net assets will shrink from 108.672 billion yuan to 12.109 billion yuan, and the difference ratio will shrink from 2.84% to 0.43%. The analysis shows that after the implementation of ASBE in 2007, the differences between mainland and Hong Kong financial reports of A + H-share listed companies were basically eliminated, which proves the achievement of the equivalence of Standards of mainland and Hong Kong.

D. The further analysis of the implementation of Specific Standards in ASBE shows that the ASBE system was effectively implemented

ASBE consists of 38 Specific Standards, including 16 newly amended standards and 22 newly formulated standards, which covers economic business events occurred or predictable in accounting practice. The one-by-one in-depth analysis of 38 Specific Standards further confirms the conclusion that the ASBE system was implemented smoothly and effectively. Due to the restriction of paper length, we only illustrate the implementation of following Specific Standards:

1. The Standard of Inventories

The Standard of Inventories is a newly amended standard. 1,541 listed companies (98.15%) had inventories business; all of these companies abandoned the Last-In-First-Out method in accordance with the Standard. Among them, 1,521 companies followed the method stipulated by the Standard and disclosed the information such as the evaluation method, the carrying amount of various inventories at beginning and at end of period, and the carrying amount of inventories to be used for guaranty. These companies occupy 96.88% of 1,570 listed companies.

2. The Standard of Investment Properties

The Standard of Investment Properties is a newly formulated standard. 630 listed companies (40.13%), out of the total 1,570, had investment properties. Most of these companies used the cost model when they measured their investment properties.

Only 18 listed companies (2.86% of companies that conducted such business) used fair value to make subsequent measurements for investment properties. In these measurements, the gain from change in fair value of investment properties is 2.279 billion yuan, occupying 2.61% of net profit of 18 companies that conducted such business, and 0.23% of net profit of 1,570 listed companies.

In accordance with the annual reports disclosed by the above 18 companies, the main measures for fair value of investment properties are appraisal price of investment properties (10 listed companies), the investigation report from the third party (2 listed companies), the floor of price preliminarily agreed in negotiation with the purchaser-to-be (1 listed company), and reference market price of properties of similar kind and condition, etc. The application of these fair values needs to be further studied. There are another 3 listed companies that didn't disclose the detailed method for determining the fair value of investment properties.

3. The Standard of Fixed Assets

The Standard of Fixed Assets is a newly amended standard. Out of the total 1,570, 9 listed companies accrued 8.680 billion yuan decommissioning expenses for fixed assets in accordance with the Standard, occupying 0.48% of total assets of 9 listed companies and 1.36% of total fixed assets of them. Out of them, 3 listed companies disclosed that decommissioning expenses were included in costs of fixed assets at the discounted present value.

4. The Standard of Intangible Assets

The Standard of Intangible Assets is a newly amended standard. Annual reports of listed companies show that 30 listed companies, out of the total

1,570, disclosed intangible assets with an indefinite useful life, mainly including brand right (46%), franchise (27%), and non-patent technology (17%). Intangible assets with an indefinite useful life have no impairment.

Out of the total 1,570, 137 listed companies (8.73%) had development expenditure, and most of them are in industry of machinery manufacture, medicine and electronic information; 85% of them disclosed the requirements for the capitalization of development expenses.

5. The Standard of Exchange of Non-monetary Assets

The Standard of Exchange of Non-monetary Assets is a newly amended Standard. Out of the total 1,570, 40 listed companies had exchange of non-monetary assets. Most of these exchanges used evaluation price as fair value of the exchanged assets. From such transactions, 32 listed companies (80% of companies that had such transactions) had profit or loss; and 8 listed companies (20% of companies that had such transactions) had no profit or loss. Out of the total 32 listed companies that had profit or loss from exchange of non-monetary assets, 21 companies (65.62%) gained and 11 (34.38%) companies made losses.

6. The Standard of Impairment of Assets

The Standard of Impairment of Assets is a new standard. 692 listed companies (44.08%), out of the total 1,570, disclosed that they accrued allowance for impairment of long-term assets, including 161 listed companies (10.25%) that disclosed indication of individual asset impairment. 702 listed companies disclosed that they recognized the assets group when determining the impairment of assets. There are also very few companies reversed the loss of impairment of long-term assets. 1,152 listed companies disclosed the basis of determining the recoverable amount of long-term assets. Most listed companies disclosed the information such as the method for determining fair value of long-term assets, estimated future cash flows of assets, covered periods and discount rate. Allowances for impairment were mainly accrued for assets such as long-term equity investments and fixed assets.

451 listed companies (28.73%) had goodwill. Out of them, 373 listed companies (82.71% of companies that had such business) conducted the impairment test for goodwill.

7. The Standard of Employee Benefits

The Standard of Employee Compensation is a new standard. Annual reports of 1,570 listed companies show that salaries, bonuses, allowances, and subsidies form the main part of employee benefits of listed companies, occupying 72.55% of recognized total employee benefits in 2007. 1,538 listed companies (97.96%) disclosed the information such as employee salaries, bonuses, allowances and subsidies. 1,513 listed companies (96.37%) disclosed Five social security contributions (premiums on medical insurance, pension insurance, unemployment insurance, work injury insurance and maternity insurance). 1,328 listed companies (84.59%) disclosed the information about contributable housing funds. 463 listed companies (29.49%) disclosed the information about termination benefits. 158 listed companies (10.06%) disclosed the information about non-monetary benefits provided to employees; and very few companies also disclosed the calculation basis of non-monetary benefits.

8. The Standard of Share-based Payment

The Standard of Share-based Payment is a new standard. 41 listed companies out of the total 1,570 implemented share-based payment plans in 2007. The receivers of share-based payment are mostly directors, supervisors, high-level managers and key employees of companies. In 2007, the total expenses of 41 listed companies recognized on the share-based payment settled in cash were 2.806 billion yuan, and the total expenses recognized on the share-based payment settled with equity were 1.892 billion yuan.

33 listed companies settled share-based payment with equity. Among

them, 4 companies used restricted stock as payment tool, 11 companies used stock option as payment tool, and 19 didn't disclose detailed type of payment (1 company had two types of payment tools at the same time). 23 listed companies clearly disclosed the method for determining fair value of equity instruments. 11 listed companies settled share-based payment in cash. Among them, 2 companies settled with simulated stock, 7 listed companies settled with cash-settled stock appreciation right (SAR), and 2 listed companies didn't disclose detailed type of payment. Out of 41 listed companies that implemented share-based payment plans, 1 listed company used service time as vesting condition, 19 listed companies used non-market condition as vesting condition, and the others didn't clearly disclose the vesting condition.

The analysis shows that some share-based payment plans made great adjustments to established performance conditions in the implementation, which shall be noticed.

9. The Standard of Debt Restructurings

The Standard of Debt Restructurings is a newly amended standard. Out of the total 1,570, 316 (20.13%) listed companies restructured their debts. The net non-operating profit arising from debt restructuring was 13.004 billion yuan (1.29%), including 13.300 billion yuan debt restructurings gain of 229 listed companies (as debtors), and 296 million yuan debt restructurings loss of 82 listed companies (as creditors).

Most of these listed companies disclosed the amount of non-operating profit affected by debt restructurings, but the degree of disclosure was different. A few listed companies disclosed the ways to get fair values during the course of debt restructurings. Several companies gained much from debt restructurings, which shall be noticed.

10. The Standard of Contingencies

The Standard of Contingencies is a newly amended standard. Out of the total 1,570, 982 listed companies (62.55%) disclosed their contingencies. Among them, 905 listed companies had contingent liabilities and 138 had contingent assets.

287 listed companies (18.28%) had provisions. In 2007, recognized provisions amounted to 14.85 billion yuan. The largest portion was the provisions due to guarantee business, occupying 14.99%; the provisions due to products quality assurance, 8.59%; the provisions due to pending lawsuits, 3.59%; the provisions due to executory contracts becoming onerous contracts, 0.33%; the provisions due to restructuring obligations, 0.03%.

11. The Standard of Borrowing Costs

The Standard of Borrowing Costs is a newly amended standard. Out of the total 1,570, 473 listed companies (30.13%) had their borrowing costs capitalized. 2 companies had borrowing costs of fixed assets capitalized, 390 companies had borrowing costs of constructions in progress capitalized, 86 companies had borrowing costs of inventories capitalized, 1 company had borrowing costs of investment properties capitalized and 3 companies had borrowing costs of intangible assets capitalized. 214 listed companies out of the total 473 disclosed the capitalization ratio of borrowing costs.

12. The Standard of Income Taxes

The Standard of Income Taxes is a new Standard. Out of the total 1,570, 1,041 listed companies (66.31%) recognized deferred tax assets; 752 (47.90%) recognized deferred tax liabilities; and 244 (15.54%) recognized deferred tax assets or liabilities related to shareholders' equity items. Among them, the main item related to shareholders' equity is the change in fair value of available-for-sale financial assets, for which 26 listed companies recognized deferred tax assets and 218 listed companies recognized deferred tax liabilities.

Annual reports 2007 of listed companies show that 79.10% of total deferred tax assets are affected by deferred tax assets related to subsidiaries, associates and jointly controlled enterprises. 33% of total deferred tax

liabilities are affected by depreciation of fixed asset; and the affected portions of total deferred tax liabilities by deferred income taxes related to financial assets at fair value through profit or loss, available-for-sale financial assets and change in fair value of investment properties measured at fair value are respectively 1%, 13%, and 0.001%.

1,546 listed companies (98.47%) disclosed the main components of current income tax expense (gain); 1,422 listed companies (90.57%) disclosed the explanation on the relation of current income tax expense (gain) to accounting profit. 424 listed companies (27.01%) disclosed the deductible temporary difference and deductible loss which was unrecognized deferred income tax assets at the current period. 1,491 listed companies (94.97%) disclosed the categories, recognized amount and the basis of recognition of assets and liabilities related to current deferred tax assets and liabilities.

13. The Standard of Business Combinations

The Standard of Business Combinations is a new standard. Out of the total 1,570, 411 listed companies classified business combinations as business combinations under the common control and business combinations not under the common control in accordance with the Standard. Out of them, 348 listed companies disclosed the classification criteria for business combinations, and 63 listed companies didn't make clear disclosure.

Out of the total 186 listed companies that had business combinations under the common control, 184 companies clearly stated that they had carrying amount as the basis of measurement. 112 listed companies had trading spread, occupying 60.22% of the companies that conducted such transactions. Among them, 71 companies' investment costs are higher than their shares in carrying amount of net assets of acquirees, and 41 companies' investment costs are lower than that. 133 listed companies had business combinations under the common control, the net profit or loss of which was included in their subsidiaries' current net profit or loss from the beginning of period to the combination date. The total amount of such net profit or loss is 21.229 billion yuan, occupying 5.82% of total net profit of companies that conducted such transactions.

All the listed companies that had business combinations not under the common control used fair value as the basis of measurement; 57.89% of them disclosed the method for determining fair values of identifiable assets and liabilities. Out of the companies that had business combinations not under the common control, 119 companies formed goodwill amounted to 7.496 billion yuan, occupying 0.50% of the net assets of those companies, and 0.06% of the total assets of them. According to the Standard, these companies no longer amortize the goodwill, but conduct the impairment test at end of period; 72 listed companies included the portion of the investment cost (acquisition cost) that was less than the fair value of identifiable net assets of acquiree in non-operating income, which amounted to 1.831 billion yuan, occupying 4.66% of profit before tax of the companies that conducted such transactions.

14. The Standard of Recognition and Measurement of Financial Instruments

The Standard of Recognition and Measurement of Financial Instruments is a new standard. 1,570 listed companies classified their financial assets and liabilities in accordance with the Standard and disclosed related information in the notes. Out of them, 353 listed companies held 489.429 billion yuan financial assets at fair value through profit or loss (1.17% of total assets of 1,570 listed companies); 142 listed companies had 4,100.802 billion yuan held-to-maturity investments (9.84% of total assets of 1,570 listed companies); 419 listed companies held 3,208.329 billion yuan available-for-sale financial assets (7.70% of total assets of 1,570 listed companies), 149.123 billion yuan fair value change of which were included in capital surplus (2.18% of total shareholders' equity of 1,570 listed companies).

15. The Standard of Earnings per Share

The Standard of Earnings per Share is a new Standard. All 1,570 listed companies presented basic earnings per share and diluted earnings per share, and disclosed the method of calculation in the notes. The average basic earnings per share of 1,570 listed companies is 0.3579 yuan/share, and the average diluted earnings per share is 0.3479 yuan /share.

From the analysis of the implementation of 38 Specific Standards, we can draw the following conclusion: Specific Standards are comprehensively applied in 1,570 listed companies, which can properly choose accounting policies, make accounting estimations, and recognize, measure, and report in accordance with the Specific Standards and application guidance.

E. Quantity and proportion of standard audit report given by CPAs to annual reports 2007 of listed companies significantly exceed those of 2006, showing that ASBE has realized a good transition from the old to new Standards and a smooth and effective implementation in listed companies

Annual reports of 1,464 listed companies (93.25%), out of total 1,570, were given standard audit report by CPAs, and only 106 companies (6.75%) were given non-standard audit report. At the same time, only one listed company out of 99 listed companies audited by "Big Four" accounting firms was given non-standard audit report.

In accordance with related regulations of Ministry of Finance and China Securities Regulatory Commission (CSRC), the preparation and disclosure of *Reconciliation Statement of Differences in Shareholders' Equity between New and Old Accounting Standards* in first adopting new standards by listed companies in 2007 shall also be audited by CPAs. The analysis of auditing opinions given by CPAs leads to the conclusion from another perspective that the new Standards have realized a good transition from the old to new Standards and a smooth and effective implementation in listed companies.

In accordance with comprehensive and in-depth analysis of the above five aspects, generally, the new Standards are implemented smoothly and effectively in listed companies. During this course, accountants in listed companies and CPAs played their roles, and related supervisory authorities also made their contribution through active cooperation and strengthened supervision.

II. Economic Effects of the Implementation of ASBE Preliminarily Demonstrated in Listed Companies

A. The effective implementation of accounting policies of ASBE is helpful for promoting the healthy and sustainable development of enterprises

After the implementation of new Standards, this economic effect is obvious. Such as: (1) the new Standards require a comprehensive review of the contracts or agreements of various contingencies. Besides contracts of contingencies such as guaranties and pending lawsuits, it also includes termination benefits, onerous contracts, restructuring obligations, and decommissioning expenses, etc. All the related costs, expenses and estimated liabilities that meet the recognition requirements of liabilities shall be timely and completely recognized and measured, thus effectively avoids the overvaluation of profit and distribution before due time. In 2007, 287 listed companies (18.28%) recognized 14.850 billion yuan provisions; 9 listed companies recognized 8.680 billion yuan decommissioning expenses of fixed assets in accordance with the Standards.

(2) The Standard of Intangible Assets implements the policies that meet the requirements for recognition of the capitalization of development expenditures, which is helpful for the technology innovation of enterprises. In 2007, 137 listed companies (8.73% of 1,570 listed companies) had development expenditures capitalized. Only by putting emphasis on scien-

tific and technological inputs and strengthening self-innovation, can an enterprise really realize the sustainable development.

(3) Changing the accounting for long-term equity investments to subsidiaries from the equity method to the cost method avoids the undesirable exaggerated profit and distribution before due time between the parent company and its subsidiaries under the original equity method. As the regulation has implemented that the impairment for long-term assets such as fixed and intangible assets, once recognized, should not be reversed, the problem that enterprises could arbitrarily accrue and reverse the impairment of assets in order to manipulate their profits can be solved. With the continuous application of accounting policies of new Standards, the short-view actions of enterprises will be prevented, and the sustainable development of enterprises will be promoted.

B. True and complete financial reporting system formed under ASBE is helpful to promote investors sustainable investments

30 standards relating to recognition and measurement, out of 38 Specific Standards of ASBE system, specify the accounting policies and information that shall be disclosed to investors after the implementation; and there are another 8 standards relating to reporting. In accordance with the above regulations, the application guidance of Standards specifies the formats of standardized and internationalized financial statements and requirements for the disclosure of notes. The consolidated financial statements cover the financial conditions of the parent company and its subsidiaries that conduct various businesses, such as industrial enterprises, commercial banks, insurance companies, and securities companies. It stipulates for the uniform formats of consolidated balance sheet, income statement, cash flow statement and statement of change in equity.

The analysis of annual reports shows that, basically, 1,570 listed companies reported their financial condition, operating results and cash flows in accordance with the reporting formats and disclosure requirements stipulated by the new Standards and its application guidance. CPAs audited their financial reports and provided auditing opinions. The new Standards require the true reflection of the change in net assets and the course of revaluation of an enterprise. Under the new Standards and financial reporting system, accounting information is more relevant to investors. By comprehensively reading the financial reports of an enterprise, an investor can learn the past and present of the enterprise, estimate the growth trend of its net assets and make the investment decision.

In any gradually maturing capital market and market economy, an enterprise as a market entity creating social wealth can only realize the value maximization and continuous growth of social wealth by sustainable development. Only by the sustainable development of enterprises, can the investors make sustainable investments, get return on the investments and provide financial supports to the development of enterprises. Both enterprises and Investors are complementary and necessary key elements in the development of capital market and market economy.

C. The international convergence and equivalence of ASBE set up a foundation and platform for enterprises to finance and invest in international capital market

New Standards realized the international convergence and will gain the recognition of major countries and economy entities, which will make China Standards equivalent to IFRS, and greatly reduce the financing cost of Chinese enterprises in international capital market. It is also helpful for Chinese enterprises becoming larger and more competitive and "going global", and stimulate the transfer of economic growth pattern of China from capital import to capital export. After the international convergence of new Standards and its effective implementation in listed companies, relevant authorities withdrew the requirements for double auditing of listed financial companies and B-share companies in 2007. Henceforth, an enterprise only needs to prepare a set of financial statements to meet the requirements for making

investment decisions by various investors. They no longer need to prepare two sets of financial statements, which shall be doubly audited by two accounting firms.

On December 6, 2007, China Accounting Standards Committee (CASC) and Hong Kong Institute of Certified Public Accountants (HKICPA) signed the joint declaration on the equivalence of China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards, and realized the equivalence of Mainland Standards and Hong Kong Standards, which is helpful for mainland enterprises to go public in Hong Kong, lowers their financing costs and promotes the development of capital markets of both sides.

European Commission pays great attention to the international convergence and the implementation of China Accounting Standards. After knowing that China Accounting Standards has realized a good transition and effective implementation, they issued a proposal that China Accounting Standards have the same effect with IFRS in EU on April 22, 2008, and will submit it to European Paliament during September to November 2008 for approval. Once it is approved, favorite conditions will be created for Chinese enterprises entering EU markets and the recognition for China's full Market Economy Status (MES) by EU.

Accounting cooperation between China and US is also deepening. Accounting cooperation, as well as the convergence and equivalence of accounting standards of China and US, have become important issues in the dialogue of Sino-US Joint Economic Commission (Sino-US JEC). US Securities and Exchange Commission (SEC) announced on December 2007 that non-US companies going public in US can prepare financial reports in accordance with IFRS, and no longer need to make reconciliation in accordance with US GAAP. China Accounting Standards has realized the convergence with IFRS, so there has been a common foundation for the convergence of China and US accounting standards. Now there are already some large Chinese enterprises listed in US, and the realization of equivalence of China and US accounting standards will greatly reduce the listing costs. On April 18, 2008, CASC and US. Financial Accounting Standards Board (FASB) signed the memorandum on accounting cooperation, which aimed at achieving equivalence of China and US accounting standards.

III. Analysis of the existing problems and their causes concerning the implementation of ASBE by listed companies

By real time monitoring the stock market, analyzing the target group company by company, field research on listed companies, and the comprehensive and in-depth analysis of their annual reports 2007, we found some problems in the implementation of new Standards.

A. Incomplete implementation results in the deviation from ASBE

1. Formats of financial statements of a few companies show certain degree of arbitrariness. New Standards clearly stipulate for the uniform formats of financial statements of industrial enterprises, commercial banks, insurance companies, and securities companies, which shall be strictly followed by listed companies in the disclosure. However, very few companies didn't do so, but made adjustments to related items in financial statements by themselves, which reduced the comparability of the information about the financial statements of listed companies.

2. Some companies didn't disclose sufficient information in the notes to financial statements. New standards require the full disclosure of all significant transactions or events and important accounting policies and estimations. However, some companies didn't make the comprehensive, complete and detailed disclosure, or didn't disclose related important information in the notes strictly in accordance with the requirements of the new Standards. Some didn't disclose detailed content and process of transactions and the

method for determining the related amount; some didn't disclose the method for determining the recoverable amount of assets; some didn't disclose the risks related to financial instruments; and others didn't disclose the method for determining fair value, etc., which reduced the usefulness of accounting information.

3. Some companies didn't make the impairment test to goodwill in accordance with the new Standards. New Standards require that an enterprise shall make the impairment test to goodwill formed in business combination, at least at the end of every year. However, the information disclosed in the annual reports shows that 373 companies (out of 451 companies that had goodwill) made the impairment tests to goodwill, and 78 companies didn't make any impairment test or related disclosure, which reduced the effect of the implementation of the Standard of Impairment of Assets in certain degree.

B. Inaccurate professional accounting judgments results in unfair accounting information

New Standards are principle-based, which need the professional judgments by accountants in accordance with the Standards in the implementation. In practice, few companies made arbitrary professional judgments, which resulted in subjective and unfair accounting information. Such as:

1. There is certain degree of arbitrariness in the determination of fair value in some companies. According to the new Standards, an enterprise shall respectively use price of same kind of asset in active market, price of similar asset in active market, evaluation technique etc. to determine fair value under different situations. For the same transaction or event, the measurement method of its fair value shall be the same. However, in practice, for the same transaction or event, some companies determined its fair value with the price in active market, some determined its fair value with the negotiated price agreed by two parties in the transaction, and others determined its fair value with the appraisal value, which reduced the reliabili-

ty and relevance of the information about fair value.

2. The depreciation method, useful life and estimated net residual value of fixed assets etc. chosen or determined by few companies didn't reflect the actual situation. New Standards require that an enterprise shall reasonably choose the depreciation method in accordance with the estimated realization way of related economic benefits, and reasonably determine the useful life and estimated net residual value in accordance with the nature and usage of fixed assets. Some companies arbitrarily chose the depreciation method, useful life and estimated net residualvalue of fixed assets for different considerations, which is not consistent with the actual depletion of assets and is not helpful for users of accounting information to make decisions.

C. Differences between Mainland and Hong Kong financial statements that should not have occurred are caused by different accounting for the same transaction or event under A + H-shares reports

Some listed companies and accounting firms made different treatments to the same transaction or event, which resulted in differences that should not have occurred between the annual reports of A + H-share listed companies of Mainland and Hong Kong. As mentioned above, these differences include differences from assets appraisal in company restructuring, business combinations under the common control and depletion methods of assets, etc..

D. Few companies' indications of violating accounting standards and manipulating profit

New standards stipulate that an enterprise shall recognize, measure, and report in accordance with the economic substance of the transaction or event, but very few companies had indications of profit manipulation, and their accounting results didn't reflect the economic substance of the transactions or event. Such as:

1. Reverse the impairment loss of long-term assets recognized in previous years in despite of the accounting standards. New standards stipulate that once recognized, the impairment loss of long-term assets such as fixed assets and intangible assets is not allowed to be reversed in later periods. The information disclosed in annual reports shows that, there are still few listed companies reversed the recognized impairment loss of long-term assets and increased the profit of 2007.

2. Achieve the goal of turning loss to profit and avoiding being delisted through relieving debts of listed companies by related parties. Few companies achieved the debt restructuring gain, turned loss to profit and avoided being delisted by controlling shareholder relieving debts.

3. Large-amount donations of the parent company to listed companies. Some companies turned loss into profit in 2007 by receiving large donations from their parent companies, which was also indication of profit manipulation.

E. Few companies' misunderstanding of ASBE results in the deviation in accounting

Due to few companies' misunderstanding of ASBE in the implementation of the new Standards, there were deviations in accounting, for example:

1. Wrong classification of financial assets. Some companies classified their restricted equities that had control, common control or significant influence on listed companies as available-for-sale financial assets, which shall be accounted for as long-term equity investments in accordance with the new Standards; some companies classified the financial assets that should have been classified as the held-to-maturity investments as loans and receivables.

2. Wrong initial measurement of mortgage assets. ASBE requires that the mortgage assets of financial institutions shall be measured at fair value on the initial recognition, but the analysis result of annual reports shows that some companies measured at the lower of carrying amount of related loans and advance and the net amount of mortgage assets after deducting the costs of sale on the initial recognition of mortgage assets.

IV. Main measures for solving the problems in the implementation of ASBE

A. Publish Interpretations and opinions of the specialists working group, comprehensively amend ASBE Explanatory Guidance, and coordinate and improve related supporting measures with related parties

Special force will be organized to carry out pertinent field research and in-depth research on problems identified in the analysis of annual reports 2007 of listed companies, and the Interpretations will be timely published on the basis of soliciting comments from related departments and specialists. Some problems need to be clarified in the form of opinions of the specialists working group. In accordance with Interpretations, opinions of the specialists working group, problems in the implementation of Standards and analysis of annual reports, ASBE Explanatory Guidance will be comprehensively amended. During this course, technical negotiation will be actively carried out with standards-setting authority of HKFRS, and both sides will make common efforts to publish respective related regulations to eliminate the differences that should not have occurred between reports of A-share and H-share to promote the implementation of the convergence of the Standards of Mainland and Hong Kong.

With the publication of *The Law of the People's Republic of China on Enterprise Income Tax*, its application regulations and related application measures, how to coordinate the related regulations of the new Standards and tax laws and regulations has become the urgent problem that needs to be solved. The deferred income tax expense arising from the temporary differences between accounting and tax laws and regulations needs more detailed connecting rules to promote related parties to improve the tax returns of enterprise income tax and facilitate better implementation of the Standard

of Income Taxes and proper tax declaration.

The new Standards realized the change from income statement view to balance sheet view, the key of which requires that the financial management should has the improvement of quality of assets and liabilities, not the pursuit of single short-term profit, as the goal. During the implementation, because the indicators of performance assessment and supervisory conditions put more emphasis on profit indicators (profit performance), some listed companies manipulated the profit for short-term performance or avoiding the supervision, thus stimulated the short-term activities. Therefore, it is necessary to promote the further improvement of the performance assessment system and supervision rules to develop a good circumstance for the effective implementation of the new Standards.

B. Carry out the in-depth training on ASBE and endeavor to enhance the professional judgment capability of professionals

One distinct feature of the new Standards is that it allows the accountants to make professional judgments in accordance with the actual situation of enterprises. On one side, it requires accountants to change perceptions, renew concepts, and skillfully grasp the concept framework of the new Standards; on the other hand, it requires them to study hard to properly grasp the essence and substance of the new Standards. By this way, accountants can really enhance the professional judgment capability and implement the new Standards more conscientiously. We will make full use of the training platform of related professional accounting bodies (e.g. Accounting Society of China), carry out in-depth trainings on the new Standards in a planned way, and comprehensively enhance the professional judgment capability of related personnel.

C. Further strengthen the supervision and ensure the effective implementation of ASBE in enterprises

The effective implementation of the new Standards needs the powerful supervision. In the future work, the coordination among supervisory authorities of finance and securities, banking, insurance, auditing and state-owned assets supervision shall be further strengthened to form the combined force and strictly monitor the problems in the implementation of the new Standards. We shall continue to promote the assurance role of auditing by CPAs in the implementation of the new Standards, and lend the powers of intermediary institutions and social supervision to improve the implementation of the new Standards; we shall also continue to carry out the interviews with listed companies and related accounting firms to solve the problems in the implementation of the new Standards. The violations to accounting standards shall be strictly punished without soft heart.

D. Main problems needed to be further studied

1. Specific application of fair value in practice

The new Standards stipulate for the principle of fair value determination, but the practical situations are complex, especially for the application of evaluation technique, the way to choose evaluation model, and related parameter hypothesis, the detailed guidance of which haven't been provided by the new Standards. At present, IASB is developing the Standard of Fair Value Measurements, and US FASB has published the Standard of Fair Value Measurements. These research achievements provide us experience for reference. As to the reality of emerging plus transitional economy of China, we need to organize special force to research problems related to fair value, and direct enterprises to properly apply the fair value in practice.

2. Problem regarding relation of loan loss allowances accrued by commercial banks and Five-level loan risks classification

In accordance with the new Standards, commercial banks shall accrue loan losses allowances in accordance with the difference when the present value of the future cash flows of the loan is less than its carrying amount. In accordance with the requirement of supervisory authorities, commercial banks shall accrue general allowance, specific allowance and special allow-

ance. Specific allowance is divided to five categories: normal, concern, secondary, suspicious and loss, and different accrual ratios of the allowance for loan loss are determined respectively. In practice, some companies took the requirements of supervision into account when they implemented the Standards; others improperly dealt with the relation of them. It is necessary to carry out researches on such issues as soon as possible and find out the appropriate treatments.

V. Basic thought for future work

The establishment, international convergence and equivalence of ASBE, as well as its smooth and effective implementation in China's listed companies achieved the phased results. It is the result of the common efforts of China's listed companies, intermediary institutions, supervisory authorities, and theoretical and practical accounting circles, as well as the support from accounting profession of Hong Kong and Macao. EU, World Bank, and especially IASB made continuous efforts during this course. All the sides made contribution to the construction, equivalence and effective implementation of China's ASBE system. At the same time, we also consciously realized that the future task will be harder, and the opportunities will come with challenges. The realization of future development goals still needs the common efforts and supports of domestic and foreign accounting organizations and trade.

A. Continue the tracking analysis of the implementation of ASBE by listed companies

By the tracking analysis of the implementation of the new Standards by 1,570 listed companies in 2007, we accumulated the experience, established the mechanism and obtained the achievements. In the future, we will further improve the long-term mechanism of the analysis system and work, continuously track and monitor the implementation of the new Standards by listed

IV. Main measures for solving the problems in the implementation of ASBE

A. Publish Interpretations and opinions of the specialists working group, comprehensively amend ASBE Explanatory Guidance, and coordinate and improve related supporting measures with related parties

Special force will be organized to carry out pertinent field research and in-depth research on problems identified in the analysis of annual reports 2007 of listed companies, and the Interpretations will be timely published on the basis of soliciting comments from related departments and specialists. Some problems need to be clarified in the form of opinions of the specialists working group. In accordance with Interpretations, opinions of the specialists working group, problems in the implementation of Standards and analysis of annual reports, ASBE Explanatory Guidance will be comprehensively amended. During this course, technical negotiation will be actively carried out with standards-setting authority of HKFRS, and both sides will make common efforts to publish respective related regulations to eliminate the differences that should not have occurred between reports of A-share and H-share to promote the implementation of the convergence of the Standards of Mainland and Hong Kong.

With the publication of *The Law of the People's Republic of China on Enterprise Income Tax*, its application regulations and related application measures, how to coordinate the related regulations of the new Standards and tax laws and regulations has become the urgent problem that needs to be solved. The deferred income tax expense arising from the temporary differences between accounting and tax laws and regulations needs more detailed connecting rules to promote related parties to improve the tax returns of enterprise income tax and facilitate better implementation of the Standard

of Income Taxes and proper tax declaration.

The new Standards realized the change from income statement view to balance sheet view, the key of which requires that the financial management should has the improvement of quality of assets and liabilities, not the pursuit of single short-term profit, as the goal. During the implementation, because the indicators of performance assessment and supervisory conditions put more emphasis on profit indicators (profit performance), some listed companies manipulated the profit for short-term performance or avoiding the supervision, thus stimulated the short-term activities. Therefore, it is necessary to promote the further improvement of the performance assessment system and supervision rules to develop a good circumstance for the effective implementation of the new Standards.

B. Carry out the in-depth training on ASBE and endeavor to enhance the professional judgment capability of professionals

One distinct feature of the new Standards is that it allows the accountants to make professional judgments in accordance with the actual situation of enterprises. On one side, it requires accountants to change perceptions, renew concepts, and skillfully grasp the concept framework of the new Standards; on the other hand, it requires them to study hard to properly grasp the essence and substance of the new Standards. By this way, accountants can really enhance the professional judgment capability and implement the new Standards more conscientiously. We will make full use of the training platform of related professional accounting bodies (e. g. Accounting Society of China), carry out in-depth trainings on the new Standards in a planned way, and comprehensively enhance the professional judgment capability of related personnel.

C. Further strengthen the supervision and ensure the effective implementation of ASBE in enterprises

The effective implementation of the new Standards needs the powerful companies, solve the problems in the implementation of the new Standards by listed companies, and make full use of the new Standards for the development of enterprises and the improvement of capital market. From now on, the focus of tracking analysis will transfer to the implementation of new Standards by listed companies in 2008 and the analysis of reports, as well as the implementation of the new Standards by unlisted companies.

B. Steadily extend the scope of implementation of ASBE on the basis of enforcing the smooth and effective implementation of ASBE by listed companies

With the active cooperation and support of related departments and local authorities, the scope of implementation of the new Standards has been extended since 2008.

State-owned Assets Supervision and Administration Commission of the State Council (SASAC) required all the central enterprises comprehensively implementing the new Standards from January 1, 2008, and at the same time requires all provinces actively promoting the implementation of new Standards by local enterprises. China Banking Regulatory Commission (CBRC) clearly required all the city commercial banks etc. implementing the new Standards from January 1, 2008. China Insurance Regulatory Commission (CIRC) required all the commercial insurance companies preparing financial reports in accordance with the new Standards from 2007, and comprehensively implementing the new Standards from January 1, 2008. Some provinces and cities also required the large and medium-sized local enterprises implementing the new Standards from 2008. It has become the initiative action of all sides to extend the scope of implementation of the new Standards. According to the analysis of current situation, China will realize the goal of implementing the new Standards in all large and medium-sized enterprises within about 3 years. The small enterprises will continue to implement the accounting system for small enterprises.

We can believe that, with its comprehensive implementation in all

Chinese large and medium-sized enterprises, the new Standards will definitely play a very important role in the reform and development of Chinese enterprises and the improvement of the capital market.

C. Actively participate in the formulation of IFRS and promote the continuous convergence of China's Standards and IFRS

Now IASB is endeavoring to improve the high-quality IFRS around the world. CASC and IASB achieved consensus and signed a memorandum on the continuous convergence of both standards on January 8, 2008. CASC will timely provide the feedback on the discussion paper and exposure draft published by IASB. When improving China's accounting standards, CASC will communicate with IASB. China also has actively participated in the work of IASB all along. In 2006, Mr. Wang Jun, Vice Minister of Finance and Secretary-General of CASC, and Mr. Liu Zhongli, President of CICPA respectively served as member of the Stanards Advisory Council of IASB and trustee of IASC Foundation. In 2007, IASB absorbed one Chinese representative as a full-time member. Accounting Regulatory Department of Ministry of Finance sends staff to participate in the technical-level work of IASB every year. The above measures set up the foundation of the continuous convergence of China's Accounting Standards and IFRS and China's participation in the formulation of IFRS, which contribute to the improvement of China's ASBE system and high-quality IFRS around the world.

(Drafters: Liu Yuting, Wang Peng and Cui Huaqing)