Fair Value Accounting In China

Abstract

The newly revised Chinese Accounting Standards (CAS) introduced fair value accounting to some particular assets and liabilities. It is considered to be an important step of harmonizing with IFRS. However, given some practical constraints, the fair value measurement is only currently applied to certain financial instruments. The main objective of this paper is to investigate the market reaction to the new standards. Through examining the value-relevance of quarterly reported earnings and the gain or loss from fair value adjustment, significant results are provided. In addition, the study also reveals that fair value measurement has the incremental information contents to explain stock returns.

Key Words: Value-relevance, fair value accounting, CAS revision