



**SCHOOL OF ECONOMICS
AND MANAGEMENT**
Lund University

Master Thesis:

A Comparative Study of Chinese Accounting System with Japanese and French Accounting Systems

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Summary

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Five key words: accounting, regulatory mode, Chinese accounting standard setting, causes of international differences, Japanese and French accounting systems

Purpose: We are trying to focus on the modes and processes of accounting standard setting in China in this thesis. By comparative studies with Japanese and French accounting systems, suggestions will be provided to improve Chinese accounting standard setting process.

Methodology: The methodologies we used in this thesis are mainly abduction and case studies. The primary data are coming from the official websites and our telephone interview with the related authorities. Journals, academic articles, books, and the Internet are the sources of our secondary data.

Theoretical perspectives: The classification of accounting by regulatory styles from Puxty (1987) and the causes of international differences from Nobes (2008) are the major theoretical perspectives we used in our thesis.

Empirical foundation: The empirical materials of Chinese accounting system are mainly from the official websites and our telephone interviews. Japanese and French empirical data are collected from the official websites and related reports.

Conclusions: Through our analysis of the environmental factors influencing accounting regulatory modes, we found that the public sector mode is the most suitable style for Chinese situation. However, lacking of independence, representative and transparency are the main problems existed in China. In order to improve the accounting standard setting, we provide our suggestions to the Chinese authorities by the comparative analysis with Japan and France.

Abbreviations

ASBE: Accounting Standard for Business Enterprise

IFRS: International Financial Reporting Standards

AOSSG: Asian-Oceanian Standards Setters Group

GAAP: Generally Accepted Accounting Principles

CICPA: Chinese Institutional Certified Public Accountants

ASC: Accounting Society of China

CSRC: China Securities Regulatory Commission

CASC: China Accounting Standards Committee

MOF: Ministry of Finance

FASF: Financial Accounting Standards Foundation

JICPA: Japanese Institute of Certified Public Accountants

ASBJ: Accounting Standard Board of Japan

FAF: Financial Accounting Foundation

FSA: Financial Services Agency

CPAAOB: Certified Public Accountants and Auditing Oversight Board

CNC: Conseil National de la Comptabilité (national accounting council)

CRC: Comité de la Réglementation Comptable (accounting regulation committee)

AMF: Autorité des marchés financiers (stock exchange regulatory body)

OEC: l'Ordre des Experts-Comptables (the chartered accountants' institute)

CNCC: La Compagnie Nationale des Commissaires aux Comptes (the auditors' institute)

COB: Commission des opérations de bourse

CMF: Conseil des marchés financiers

CDGF: Conseil de discipline de la gestion financière

FEE: Fédération des Experts-Comptables Européens

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Chapter 1 Introduction

1.1 Background

Nowadays, accounting standards play an important role in daily economic activities. It regulates the practice of financial accounting and balances benefits of different stakeholders. A good standard can reduce the investment risks, stabilize the capital market and optimize the allocation of resources. As a result, it can attract more investment and ensure a healthy capital market. In order to get a set of high quality accounting standards, the most important part is a sound accounting policy making system. This system can not only produce the right standard but also facilitate the enforcement and supervision of the standard.¹

With the development of global convergence of accounting standards, China, as one of the biggest economy, has been making a lot of efforts on it. In 2007, China began to adopt the new Accounting Standard for Business Enterprise (ASBE) which is a big step forward to International Financial Reporting Standards (IFRS) as we can see from the changes made. On 17 April 2009, a preparatory meeting of the Asian-Oceanian Standards Setters Group (AOSSG) was held in Beijing. Participants discussed issues related to establishing the AOSSG, to promote the adoption of or convergence with the IFRS in the region.² In order to ensure the enforcement of ASBE and realize the objectives of the AOSSG, a robust and transparent accounting policy making system must be set up in China. We'd like to introduce the situation of Chinese accounting policy making to more people and give our suggestions which will help the authorities to improve the independency and representativeness in the standard setting process.

1.2 Problem Discussion

¹ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, *Finance and Accounting Monthly*

² http://kjs.mof.gov.cn/kjs/zhengwuxinxi/gongzuotongzhi/200904/t20090417_134217.html

Since the accounting policy plays an important role in capital market, it is necessary to have a good understanding of the Chinese policy making system. High quality accounting standards can discipline accounting behaviors and balance the benefits of different stakeholders. And a sound system can guarantee the high quality accounting standards. Also it can reduce the investment risks, stabilize the capital market and distribute resources efficiently.³ Government plays a dominate role in accounting policy making, and transparency seems not high in China at present.⁴ Also, translation can be another obstacle in disclosure especially to international investors or scholars since some of the regulatory website do not have English versions. By introducing the main functions of those authorities we can have a better understanding about the current state of the accounting policy making system in China, we can also find out problems existed in it.

So the first problem we are going to address is what kind of system does Chinese accounting standard setting have. In order to analyze this problem we will describe the main functions of those authorities and examine whether their functions overlap.

Also, we can not judge an accounting standards setting system itself without taking contextual analysis into consideration. The best accounting standards setting system is the one which suits the national conditions best.⁵ Therefore, after examining the accounting system and the authorities involved, it's necessary for us to analyze whether the current accounting system is the best choice for China. Through the case studies and comparison of the accounting standards setting situations among Japan, France and China, we can find out the advantages and disadvantages of Chinese accounting standards setting system. Thus the second problem we are trying to figure out is what is the most appropriate accounting standards setting system for China; the reasons will also be explained later.

³ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, Finance and Accounting Monthly

⁴ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, Finance and Accounting Monthly

⁵ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, Finance and Accounting Monthly

The capital market in China developed relatively late and is immature comparing to western countries, and China lacks experiences in this area.⁶ And as we can see from the preparatory meeting of the Asian-Oceanian Standards Setters Group (AOSSG) we mentioned before, convergence becomes the focus on international level. And China has to make more effort on convergence. By comparative analysis between China and other countries, we can find out what China can learn from other counties on standard setting in order to improve the effectiveness of the system, the quality of financial information so that a healthy capital market can be maintained and the confidence of investors can be restored.

To sum up, the three main problems we are attempting to answer are:

- What kind of system dose Chinese accounting standard setting have;
- What is the most appropriate accounting standard setting system for Chinese national conditions;
- What China can learn from other countries like Japan and France to improve its accounting standard setting system?

1.3 Purpose

By answering these questions, we'd like to first make people know better about Chinese accounting policy making system. Second, we like to give some suggestions to the related authorities on standard setting matters through comparison to other countries.

1.4 Delimitations

By regulating the preparation of financial statements of listed companies, we can achieve the goal to stabilize the capital market and restore investors' confidence.⁷ That's the reason that we have chosen to limit the category of standard setting for listed companies in China. In this paper we emphasis on the influences of different

⁶ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, Finance and Accounting Monthly

⁷ Liu, J., & Qiao, Y. (2006, 3). The Accounting Environment and Accounting Standard Setting Models, Finance and Accounting Monthly

participants in the process of standard setting other than the specific procedures in this process.

1.5 Disposition of The Thesis

In our thesis, we will first introduce the background of our topic as well as the purpose of our thesis. In Chapter 2, we will discuss the methodology we used in this paper. The third part of our thesis is theoretical framework, which is mainly about the theories and concepts related to our research. In Chapter 4 Empirical material, we are going to describe the current state of accounting standard setting in China; also we'd like to give a brief introduction of accounting system in Japan and France. And the analysis and comparison will be made in Chapter 5. And finally, we will draw our conclusions in Chapter 6.

Chapter 2 Methodology

The methodology used will be introduced in this chapter. We will discuss what kinds of approaches have been used to answer the questions we proposed in our paper. Also, we will explain why we chose these methods as well as how it works in our analysis.

2.1 Choice of Subject

The subject we chose in this thesis is about accounting standard setting in China. Since there is little literature in English describing the current state of Chinese accounting standard setting, we'd like to introduce and discuss it. As the development of global convergence of accounting standard it becomes more and more interesting to look at the situation in China, which is one of the biggest economies in the world.

2.2 Methodological Approach

The following approaches have been used in our paper. The advantages and disadvantages as well as the reasons why we chose these methods will be presented. In addition, how the questions raised will be solved by using these methods will also be mentioned in the following part.

2.2.1 Abduction

We choose abductive approach in this thesis. “Abduction is the process of adopting an explanatory hypothesis and covers two operations: the selection and the formation of plausible hypotheses. As process of finding premises, it is the basis of interpretive reconstruction of causes and intentions, as well as of inventive construction of theories. Abduction, Deduction and Induction become interacting aspects with different epistemological functions.”⁸

Deductive method means that based on an existed theory, the researcher deduces a

⁸ <http://user.uni-frankfurt.de/~wirth/inferenc.htm>

hypothesis that must then be subjected to empirical scrutiny.⁹ "This means that the researcher needs to specify how data can be collected in relation to the concepts that make up the hypothesis."¹⁰ Deductive method can maintain the intrinsic relationship among concepts and make the theory more logical and rigorous. Induction is a way of reasoning and a way of logical thinking. It generalizes conclusions of individual matters. "With an inductive stance, theory is the outcome of research. In other words, the process of induction involves drawing generalizable inferences out of observations."¹¹ The disadvantage of induction is that it contains nothing new but what is already contained in the empirical data. Another shortcoming is that prejudice is difficult to be avoided. However, abductive reasoning furnishes the researcher with a problematic theory explaining the causal relation among the facts. From the abductive suggestion, which synthesizes a multitude of predicates, "deduction can draw a prediction which can be tested by induction".¹²

After analyzing these three research approaches, we find that abductive method is more suitable for our research than other two methods. Based on some previous theories, we begin our collection of empirical data on Chinese accounting standard setting system. By adopting these theories and our empirical data, we get an in-depth understanding of our topic which in turn is the base of our research questions. To some extent, the data collected from empirical study surprised us. For instance, we did not expect that the members of CASC have such a complex background. Also, key positions of CASC are occupied by staff of Ministry of Finance directly. We are also surprised at the relationship between CICPA and Ministry of Finance as well as the wide scope of responsibilities of Accounting Department of Ministry of Finance. The specific empirical findings will be introduced in Chapter 4. We confirmed most of our expectations based on the existing theories. However, we also noticed some problems such as democracy and independence in standard setting process from the empirical

9 Bryman, A., & Bell E. (2007). Business Research Methods, p. 11

10 Bryman, A., & Bell E. (2007). Business Research Methods, p. 11

11 Bryman, A., & Bell E. (2007). Business Research Methods, p. 14

12 <http://user.uni-frankfurt.de/~wirth/inferenc.htm>

observations. We try to propose some improvement suggestions through comparative studies of other two countries. The next part will introduce the other research approach and the countries for comparative study selected by us.

Therefore, the abductive approach enabled us to synthesis our theoretical framework and empirical data. We can take advantage of both theoretical reference and empirical findings to solve our problems.

2.2.2 Case Studies

Case studies include the analysis of similar situations in other organizations. The problems existing in these organizations have similarities with the situation of current research objects. Selecting the right cases to study is quite important for solving the research questions successfully.¹³ Case studies can give us a deeper understanding of the accounting standard setting system of China and give our suggestions through comparison. The two countries we choose as benchmark will be introduced later.

We choose the comparative approach for the following reasons. First, it allows one to learn from both the achievements and failures of others and to avoid the perils of accounting ethnocentrism. Second, we can find out the gap between China and other countries on global convergence on accounting standards by comparative study.

In order to find out the problems existed in Chinese accounting system, we selected France and Japan as the cases to make a comparative study on the accounting systems. The reasons we choose Japan and France as the benchmark is followed.

First, China and Japan are quite similar to each other in culture background; there may be some experiences to be learnt from Japan. Second, Japan is the successful case that transfers from one model to another in accounting standard setting. And

¹³ Rong, T. (2003). *Business Research Methods*, p. 49

we'd like to discuss that what China can learn from Japan's transformation. Third, Japanese Generally Accepted Accounting Principles (GAAP) has been recognized as the equivalence with IFRS by EU from 2009. This can be a successful experience that China can learn in the process of convergence.

As we know both France and China are centralism on standard setting, that is to say, the state has strong influence on standard setting and enforcement. Since France has adopted IFRS for consolidated accounts for four years, there must be a lot of practical experiences for China to learn from. In addition, both in France and China banks are the providers of finance which is the most critical factor that influences the accounting system according to Christopher Nobes (2008).

2.3 Research Strategy

2.3.1 Qualitative Method

Quantitative data is data expressing a certain quantity, amount or range. Usually, there are measurement units associated with the data, e.g. meters, in the case of the height of a person. It makes sense to set boundary limits to such data, and it is also meaningful to apply arithmetic operations to the data.¹⁴ Quantitative research is a kind of research strategy that emphasizes quantification in the collection and analysis of the quantitative data. Contrast to the quantitative research, qualitative research usually focuses on the meaning of words.¹⁵ Qualitative data is data describing the attributes or properties that an object possesses. The properties are categorized into classes that may be assigned numeric values. However, there is no significance to the data values themselves; they simply represent attributes of the object concerned.¹⁶

To be specific, quantitative data could be denoted as hard data; it is information that

¹⁴ Economic Commission for Europe of the United Nations (UNECE), "Glossary of Terms on Statistical Data Editing", Conference of European Statisticians Methodological material, Geneva, 2000.

¹⁵ Bryman, A., & Bell E. (2007). *Business Research Methods*, p. 28

¹⁶ Economic Commission for Europe of the United Nations (UNECE), "Glossary of Terms on Statistical Data Editing", Conference of European Statisticians Methodological material, Geneva, 2000.

could be described as profit in dollars, unsold units or similar. Qualitative data that can be called soft data consists of information for example about comfort at work or good function.¹⁷ We use qualitative method as our empirical research strategy. Our study subject is to examine the regulatory mode of Chinese accounting standard setting and to find the most suitable mode for China as well as give our suggestions on improving Chinese accounting standard setting. The purpose of our research determined that we have to focus on the functions and relationship of different authorities involved into the standard setting process. Thus, quantitative data is not appropriate to describe these functions and relations and qualitative method is more suitable for our study. We choose qualitative method to conduct our empirical research. By adopting this approach, we not only can generate theory from our empirical information but also testing the theoretical framework we used.

2.3.2 Empirical Information

Since our research problems are mainly about the accounting standard setting in China, the roles, responsibilities and relationships of different authorities involved in this process are our focus. The empirical information is mainly collected from the official websites of these authorities. We will also conduct telephone interview with respondents from these authorities in order to confirm the information from their official website and the relationships between these authorities and government.

The aim of telephone interview is a supplement for our information collected from official websites of China. The responsibilities and roles of these authorities have been stated clear on their websites, however; the relationships between government and these authorities are ambiguous and we cannot define the relations by the information collected from official websites. In order to figure this out, we decided to conduct telephone interview. Telephone interview has the following advantages which are also the reason that we choose it. First, it is much cheaper and faster way to

¹⁷ Wallen G. (1993), as referred by Tostar M. & Karlsson P. (2008) ,Vetenskapsteori och forskningsmetodik, Studentlitteratur AB

achieve our research purposes considering of our limited resources both on time and money.¹⁸ These interviewed authorities are too far to arrange individual interviews on geography. Also, since we only have two months to prepare this thesis, it is time consuming to conduct personal interviews. Moreover, as we have collected most of related information from the official website and the aim of our interview is to confirm this information and help us to figure out few ambiguous questions, it is not necessary to conduct face to face interview and telephone interview can serve us better to realize our purposes than personal interview. Second, telephone interview will reduce the possibility of respondents' answers being affected by the interviewer.¹⁹ However, telephone interview does have some limitation. For example, some authorities may be not reachable by telephone obviously cannot be interviewed by telephone.²⁰ They will increase the difficulty of our research. This situation happened in our telephone interview and we solved this problem by search help from other authentic articles or reports. Also, telephone interviewers cannot engage in observation. However, our questions for the respondents are the basic knowledge which should be known as a qualified civil servant who worked in these departments. So we think this limitation will have little influence on our results of interview. Further, it is probably more difficult to ascertain by telephone interview whether or not the correct person is replying.²¹ Since our questions are seemed as basic knowledge for the staff working in these departments, it is possible to avoid this disadvantage. Before our interview process, we will state our purpose of interview and our research problems and our call will be transferred to relevant person who is in charge of consultant service or have the ability to answer our questions.

2.3.3 Semi-Structured Interview

Our interviews with different authorities involved in the accounting standard setting

18 Bryman, A., & Bell E. (2007). Business Research Methods, p. 214

19 Bryman, A., & Bell E. (2007). Business Research Methods, p. 215

20 Bryman, A., & Bell E. (2007). Business Research Methods, p. 215

21 Bryman, A., & Bell E. (2007). Business Research Methods, p. 216

process took the semi-structured approach. For a semi-structured interview, the researcher has a list of specific questions as the interview guide, however; the questions can be adjusted according to the responses of the interviewees. And the interviewees have lots of freedom in how to reply.²²

Unstructured interview as an interview guide has only a list of topics or issues and the style of questioning is usually informal.²³ Since we will conduct telephone interview to collect parts of our empirical data, the time of the interview is limited and we need to get specific answers for our questions during a short telephone conversation.

Unstructured interview cannot fulfill this target since the quality of our interviews may be reduced by these unconstrained questioning styles. Also, structured interview is not suitable for our research. Structured interview is standardized in order to minimize the differences between interviews.²⁴ Our interviewees are from different authorities which have different functions and roles in the standard setting process. Thus, we need to ask questions relevant to their working scope in order to get useful information from their answers in limited time. To some extent, structured interview is too strict to acquire sufficient information. However, semi-structured interview can solve the problem existed in unstructured interview and structured interview. It enables us to control the process of interview, ensure the quality of our interviews and utilize the time efficiently. Based on the above characteristics of semi-structured interview, we found that it is the most suitable method to conduct our research.

2.4 Interview Guide

First, we prepared a list of questions as our interview guide²⁵ in order to limit the scope of our interview and give sufficient freedom for the respondents to express themselves. Second, we formulated the specific interview questions and adjusted the sequence of the questions according to the responsibilities of different authorities. As

22 Bryman, A., & Bell E. (2007). *Business Research Methods*, p. 474

23 Bryman, A., & Bell E. (2007). Business Research Methods, p. 213

24 Bryman, A., & Bell E. (2007). *Business Research Methods*, p. 209

25 The interview guides is attached in Appendix

we mentioned before, our interview questions are basic knowledge for our respondents, however, we are not much familiar with this field as our respondents. In order to enhance the quality of our interviews and emphasis on the interesting topics related to our research, we need to learn the duties of different authorities well. Meanwhile, we can reduce the possibilities of missing important information and understand our respondents better. When we were conducting our interview, one of us was interviewer and the other one was recorder so as to study the empirical data after the interviews and avoid the lack of important information.

2.5 Additional Considerations

Some of our telephone interviews are not successful due to the intrinsic problems existed in these authorities such as the lack of consultancy department and invalid numbers. We tried to solve these problems by consulting other authorities among our interviewees and collecting more secondary data.

All the interviews were conducted in Chinese since it is the native language of the interviewers and interviewees. It is a better way for communication and enhances the possibilities of successful interviews. Also, since our research is about Chinese accounting standard setting, the empirical data mostly collected from Chinese papers, articles and websites and we translated them into English. During the process of translation, mistakes and misinterpretation is inevitable. However, we tried to reduce these problems by using adequate tools, such as dictionary and professionals.

2.6 Selection of Participants

We have to collect more information from the authorities involved into the process of standard setting so as to solve our research questions better. Since our focus in this paper is about the accounting standard setting in China, our sample selection is limited in different authorities of China. The influence of other countries' authorities is of uncertainty.

Through the interviews with authorities, we can get a better understanding of the power distribution in accounting standard setting in China and the relationships among different authorities. Thus, we can get the answer for our research question- which kind of accounting regulatory style is adopted by China.

Our selection criterion was based on the importance of authorities in the accounting standard setting process. Based on our understanding of accounting standard setting process, we found that accounting standard setters mainly came from government, academics, professional association, regulators of financial market etc. For government, Accounting Department of Ministry of Finance and CASC are the key roles in accounting standard setting. For academics, ASC is the most authentic organization in the field of accounting. CICPA is the official professional association for accounting and auditing. CSRC takes the role of the regulator in financial market. These authorities, public or private organizations, take part in the process of accounting standard setting as well as the enforcement and supervision of accounting standard. Also, most of standard setters come from these authorities. Their importance in standard setting process and proportion in the number of standard setters decide that they are the most representative selection to be our interviewees. There are also several standard setters coming from company or audit firm, however; the number of this group is rare and most of them have government or academic background at the same time. It is hard to say which group they are standing for. Thus, we did not choose them as our interviewees.

We contacted these authorities by telephone. We contacted with a small group of people who are relevant to the research topic in order to establish contacts with others. This is so-called snowball sampling. It is an effective approach to collect information from the interviewees who have substantial knowledge about our research.²⁶

26 Bryman, A., & Bell E. (2007). *Business Research Methods*, p. 200

2.7 Information Gathering

The empirical data which includes primary and secondary data will provide us the information related to the accounting standard setting in China. These data can also be classified into quantitative and qualitative data. By analyzing these data we can generate a sound reasoning and conclusion regarding to our topic.

2.7.1 Primary and Secondary Data

Primary data used by researchers are collected by researchers themselves. And secondary data is what researchers can get from the existing information. Primary data could be eyewitness description or firsthand reporting,²⁷ protocol from a meeting, an interview, an observation or questionnaire.²⁸ Secondary data refers to the existing data that can be collected from books, journals, reports and the Internet etc.

2.7.2 Data collection techniques

The collection of empirical data aims to examine that if the obtained information is true and reliable and supplement new information.

Method of primary data collection

Our primary data come from the official websites of Chinese, Japanese and other countries authorities. Through the process of observation and comparison, we can get a quite clear picture about the accounting standard setting system in China and the differences between China and other countries. Also, interview is one of the important ways of data collection. An interview is a method for data collection where information is gathered by an interviewer that asks questions or has a dialog with the person being interviewed. The people being interviewed are often called respondent in scientific context. The answers and statements the respondent makes are raw data.²⁹

²⁷ Hanna Gäre & Caroline Göransson (2007). *How can the Business Potential of Products with Health Claims increase?*

²⁸ Ulf Lundahl (1999), as referred by Hanna Gäre & Caroline Göransson (2007), Utredningsmetodik för samhällsvetare och ekonomer, Studentlitteratur AB

²⁹ Ulf Lundahl (1999), as referred by Gäre H. & Göransson C. (2007), Utredningsmetodik för samhällsvetare och ekonomer, Studentlitteratur AB

The telephone interview and computer interview of the staff of Ministry of Finance of China will be used to help us to answer some ambiguous questions and confirm our judgment about the situation of Chinese accounting standard setting system. The reason we choose to make telephone interview is that it is more realistic and efficient comparing with the face to face interview and computer interview.

First, we stated our purposes of the interview to the respondents in order to get a reliable answer from these authorities. We asked the questions listed in the appendix to the different authorities involved in the standard setting process:

Method of secondary data collection

Our secondary data are collected from relevant books which include “Comparative International Accounting” of Nobes, Chinese Core journals on economics and management like “Finance and Accounting Monthly” and papers found on the internet. The articles listed in our reference are mainly collected from the data base named China National Knowledge Infrastructure (CNKI).³⁰ CNKI is the biggest and most powerful database supported by the government; it has over 50 million literatures including academic journal, doctoral dissertation, thesis, reference book, monograph, newspaper etc. The key words we used for searching are accounting policy making, accounting standards setting, Chinese accounting system, Japanese accounting system and accounting system in France. We collected our empirical data in many different ways when writing our paper. We analyzed these sources critically so as to enhance the reliability of our empirical data. The concepts used in theoretical framework are from our textbook- “Comparative International Accounting” which is a high credible source. Other articles we adopted in the following part are obtained from published national economic and accounting periodicals which can ensure the quality of this information. We tried to collect the latest publication in order to guarantee the credibility of our empirical information.

³⁰ <http://www.global.cnki.net/>

2.8 Validity

“Validity is concerned with the integrity of the conclusions that are generated from a piece of research.”³¹ Our primary data was coming from the official websites and publications of different authorities and government which enhanced the level of validity and reliability of our research. Our telephone interviews with representatives from these authorities also increased the validity of our research since it enables us to get authentic and relevant information. Besides, we collected more information related to our topic from other independent source as the supplement of our primary data. This information helps us obtain a valid and reliable research.

³¹ Bryman, A., & Bell E. (2007). *Business Research Methods*, p. 41

Chapter 3 Theoretical Framework

The theoretical framework is the existing theories that we have studied and used as a foundation in our analysis and conclusions.

3.1 Three Modes of Accounting Regulation

This is one of the most important theories we used in our thesis. We first refer to Puxty et al. (1987), who is the first one classified accounting by regulatory style. We also refer to Liang (2003) and Liu et al. (2006) who have added their new contribution to Puxty's theory. We'll introduce the main ideas of these three people one by one in the following part.

As referred by Nobes (2008), Puxty et al. (1987) provide a theoretical framework to examine the interplay of major influences and modes of regulation, to highlight how these affect the content and consequences of accounting policies and practices.³²

Based on the work of Streeck and Schmitter (1985), Puxty suggest that there are three limiting and ideal cases of regulation: through the ‘market’, the ‘state’ and the ‘community’.

Market

If a country regulates its financial report by market, it means that the process is left entirely to market forces, each company choose its own rules, influenced only by pressure from, especially, the capital market. To some extent this was similar with the situation of the UK in the ‘unregulated economy’ of nineteen century, and in the United States before the establishment of the SEC, where some companies voluntarily published accounting information and subjected themselves to audit(Watts and

³² Ryan, C., & Guthrie, J., & Day, R., (2007). *Politics of Financial Reporting and the Consequences for the Public Sector*

Zimmerman, 1983).³³

State

Another extreme is that the whole process is controlled by the ‘state’. All the decrees and practices of the state should be followed. Also, it provides an enforcement mechanism.³⁴

Community

The third ideal case is the emergence of rules through the ‘spontaneous solidarity’ of the community.³⁵

As we know from Figure 3, in accounting regulation, the market and the state have predominated over the community.

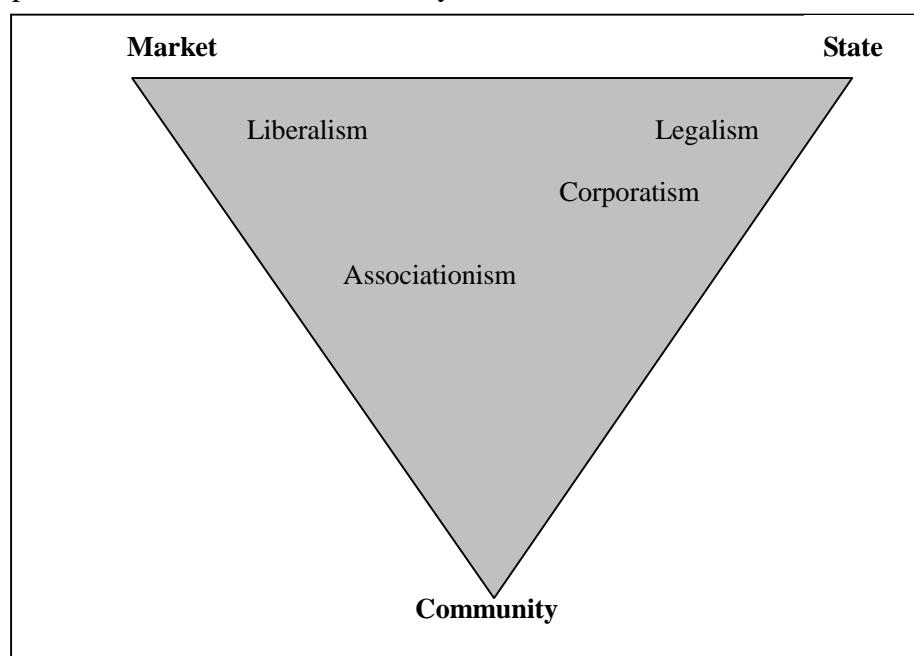


Figure 3.1 Regulation of financial reporting

Source: Adapted from Puxty et al. (1987), ‘Modes of regulation in advanced capitalism: locating accountancy in four countries’, Accounting Organizations and Society, Vol. 12, p.283. Copyright 1987 Elsevier Science.

33 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

34 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

35 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

Within these three extremes, Puxty distinguish what they and others term ‘liberalism’, ‘associationism’, ‘corporatism’ and ‘legalism’.³⁶ The following is the definitions of these four modes:

Liberalism

In this mode, regulation is provided exclusively by the discipline of the market, while companies provide information only if it is demanded commercially; **Legalism**: it relies upon the unreserved application of state principles. Accounting practice is expected to follow the letter of the law, which is enforced by the state’s monopoly of the means of coercion;³⁷

Associationism

In associationism, regulation is accomplished through the development of organizations that are formed to represent and advance the interests of their members. These members form, of course, part of the community but do not represent it as a whole.³⁸

Corporatism

It involves a greater reliance upon the state principle of hierarchical control. The state does not simply license the existence of organized interest groups but incorporates them into its own centralized, hierarchical system of regulation.³⁹

Both associationism and corporatism combine liberalism and legalism with a small dose of community influence. The basic difference between corporatism and associationism is the extent which the state ‘leans’ on interest groupings to achieve public (i.e. state), as contrasted with private (i.e. market) purpose.⁴⁰

36 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

37 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

38 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

39 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

40 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

Puxty classified the regulatory styles of the US, the UK, Germany and Sweden by applying his theory as follows:

US: Elements of legalism and associationism, with the latter subordinated to the former;

UK: Principally associationist;

Germany: Legalism predominant;

Sweden: Corporatism.⁴¹

Based on the four categories proposed by Puxty et al. (1987), Liang (2008) simplified them into two accounting regulatory modes. One is the private sector model which is represented by the UK and the US. The other is the public sector model like France and Japan. The private sector can be classified into two categories: One is the model which the private sector is in charge of the standard-setting and the state usually does not intervene in the process of standard-setting, like the UK and Canada. The other model is that private sector is the standard setter while the process is under the supervision of government. The US is a typical example of this model. Liang also took the UK, the US, France and China as examples to compare and analyze their advantages and disadvantages.

UK

It adopted the independent private sector model with little interference from government. Accounting professionals are in charge of the process of standard-setting. Compared with the public sector model, private sector model has the following advantages. Firstly, it can reduce the government expense on standard setting. Meanwhile, a lot of excellent professionals can be attracted to join in the organization of standard-setting. Secondly, it can maximize the technical character of accounting standards to ensure the standards more scientific and reasonable. Thirdly, it can

⁴¹ Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*. p. 59

represent the public interests, in particular, the interests of investors.⁴²

US

US model is the private sector model which is under the control of government. FASB operates independently and it is funded by Financial Accounting Foundation. The process of accounting standard setting is highly transparent which represents the trend of accounting policy making system. As Liang stated, the US model has all the advantages of UK models while it has several other characters. There are enough funds to innovate and develop the accounting standards. Besides, there are plenty of full-time commissioners and the masses joined in the standard setting process. Therefore, it promotes the justice of accounting standards. Furthermore, government interference and political lobbying are common. The independence of FASB has been impaired.⁴³

France

France mode is a public sector model which means state is the main role in the process of standard setting. The advantages of this model are as follows: It can ensure the authority of the accounting standards; it can enhance the comparability of the accounting information; the accounting standard-setting can facilitate the macroeconomic control, especially on tax policy. The disadvantages of public sector model are the problem of limited expense and the quality of the standards.⁴⁴

China

It also belongs to the public sector model which is similar to France and Japan. The Ministry of Finance of China is the absolute authority in the process of standard setting. There is no interference from other interest groups or political lobbying. Refer to the question about whether it is necessary to change the model of accounting

42 Liang, S. (2003): *Comparative Analysis of Chinese and Foreign Accounting Standard-setting Models*.

43 Liang, S. (2003): *Comparative Analysis of Chinese and Foreign Accounting Standard-setting Models*.

44 Liang, S. (2003): *Comparative Analysis of Chinese and Foreign Accounting Standard-setting Models*.

standard setting system, Liang advocated that the public sector model is the most suitable mode for China and he gave us two reasons.⁴⁵

First, based on the accounting environment, the private sector model cannot work well in China due to the legal environment (Code law system); political and economic environments (Highly centralism/socialist planned economy), and cultural environment (Bureaucracy) factors. Second, from the point of view of economics, the Ministry of Finance has the ability to build a set of impartial and reasonable accounting standards to guarantee the fairness of social resource allocation. For example, the problem of expense can be resolve by the government and the purpose of the standards is not only protecting the interest of the state, but also the other stakeholder existed in the market.⁴⁶

Liu & Qiao (2006) has followed Puxty's theories and concluded that there is no quality difference among them and countries should choose their own regulatory models according to their specific environments. He also pointed out his own opinions which supplement Liang's ideas about the advantages and disadvantages of these modes.

Public sector

Government takes the major role in accounting standard setting, for example, Australia. The advantages of public sectors are that the mandatory measures of government can reduce the enforcement cost; the efficiency of the enforcement of accounting standards can be enhanced and ensure the stability of economic environment; government can facilitate the coordination of stakeholders. They also mentioned its disadvantages such as the purposes of accounting standards are to satisfy the government needs and the interests of other stakeholders cannot be satisfied if there is no sufficient communication between government and other

45 Liang, S. (2003): *Comparative Analysis of Chinese and Foreign Accounting Standard-setting Models*.

46 Liang, S. (2003): *Comparative Analysis of Chinese and Foreign Accounting Standard-setting Models*.

stakeholders; the responses to new economic phenomenon are slow, the efficiency of standard-setting is not high enough; the flaws of the standards and the inflexible character of the public sector model have some downsides (the increasing expense on standards modification, the abuse of standards which lead to the distortion of accounting information, the high supervision cost and the insufficient effective supply of information); it can be easily influenced by the political lobbying and cause the unfairness of social resources allocation.⁴⁷

Private sector

Professional associations are responsible for the accounting standard-setting. The following advantages have been stated. It is closely connected with accounting professional associations. Standard-setting is more efficient, and can response to new economic phenomenon quickly. The viewpoints of professional authorities can be easily accepted and followed by most people. There're also three disadvantages. First, it will take long time to form the professional authority. The enforcement is weaker compared to public sector model. Besides, the comparability of accounting information can be impaired because there are many options existed. Finally, the independence can be impaired by the pressure of government and finance providers.⁴⁸

Public-private sector

The mixture of the above two models. It can combine the advantages of the two models above. The accounting professionals are responsible for the standard-setting and the demands of government and other stakeholders can be taken into consideration in the process.⁴⁹

According to Liu & Qiao (2006), the differences on the regulatory style of different countries are fewer than before. France which adopted the public sector model is

47 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

48 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

49 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

affected by political lobbying and turned the accounting standards into the result of the coordination of large economic groups. After Enron scandal, the Sarbanes-Oxley Act of America showed its reflection on the role of government. The standard-setter of Britain (ASB) is transfer from a pure independent accounting professional association to a quasi-official organization. From 2001, Japan abandoned its public sector model and shifted to the public-private sector model which takes advantage of non-government resources under the control of state.⁵⁰

Comparison

The theoretical framework used in the articles of Liang and Liu & Qiao (2006) is firstly proposed by Puxty et al. He classified accounting by regulatory style into three extremes, which are market, state and community. There are four terms - liberalism, associationism, corporatism and legalism within the three extremes. Based on the classification of Puxty et al., Liang analyzed the accounting modes used in four countries as well as their strengths and weaknesses. Liu & Qiao (2006) also used Puxty's theory to compare and analyze the advantages and disadvantages of the three models. They also considered the accounting environment of China and suggested that the public sector model is more suitable for China according to its national conditions. In general, Puxty's theory is the foundation of the analysis of both Liang and Liu & Qiao (2006). The difference between Liang and Liu & Qiao (2006) is the methodology they used in their analysis. Liang chose the case study method, while Liu & Qiao (2006) used the inductive approach.

3.2 Causes of International Differences in Regulatory Modes

The critical factors that influence accounting standard setting are used in our thesis. We'd like to refer to the following important concepts and theories. Jia (2008) discussed the specific environmental factors that influence the process of standard setting. Liu & Qiao (2006) concluded the application environments of different modes

50 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

based on Puxty's theories. Nobes (2008) has summarized the causes of international differences in accounting standards; and we believe that some of the causes mentioned will also influence the decision on regulatory modes. According to Puxty, the economic, legal, cultural and professional factors have impacts on the classification of regulatory modes, so it is also necessary for us to introduce Nobes' opinions.

Jia has examined six factors that influence the accounting standard setting. First, she mentioned the government intervention. No matter what kind of model the country choose in their accounting standard setting, public sector or private sector, both of them have to deal with government intervention. Second, she believes that cost-benefit ratio also has impact on accounting standard setting. It would be economic for all the countries in the world to use a common set of standard. However, to those developing countries, they will face a huge switching cost when converging with the common standard. Third, the development of accounting theory would also be one of these factors that will influence the accounting standard setting. Fourth, the current accounting standard will influence the promulgation of the new standard. Fifth, the creativity of government and private associations may also affect the accounting standard setting process. Finally, she mention about the environmental factors, such as economic, legal and cultural factors.⁵¹

Liu & Qiao (2006) also discussed the conditions of adoption of the models and pointed out that different countries should choose their optimal modes based on their cultural background and accounting environment as followed:

Public sector (France and Germany)

Economic: High degree of capitalization, High degree of public ownership, Bank is the main finance source

⁵¹ Jia, X. (2008): *Key Factors Influence the Accounting Policy Making.*

Political: Strong state/centralism, emphasis on macroeconomic control, government plays an important role in accounting standard setting.

Legal: code law, accounting linked to taxation

Accounting profession: their influence on standard setting is weak.⁵²

Private sector (UK, US)

Economic: High degree of capitalization, High degree of private ownership, developed stock market; stock market is the main finance source, dispersed ownership.

Political: Liberal political philosophy Federation, Strong lobbying towards Congress

Legal: case law, accounting does not link to taxation

Accounting profession: their influence on standard setting is strong⁵³

Third, Liu & Qiao (2006) analyzed the accounting environment of China from economic, political, legal, cultural and accounting professional association aspects and concluded that China should maintain the public sector model other than copy the models of other countries without considering the current national situation.

Christopher Nobes (2008) has summarized the causes of international differences on accounting standards such as culture, legal system, and providers of finance, taxation, other external influences and the profession. In our opinion, some of these factors will also influence the regulatory mode chose by a country, and these relevant factors will be illustrated as follows.⁵⁴

Culture

The influence of culture will penetrate into every aspect of social life; accounting standard setting is no exception. To get some idea of the basic cultural patterns of

52 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

53 Liu, J., & Qiao, Y. (2006). *The Accounting Environment and Accounting Standard Setting Models*.

54 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 26

various countries, Christopher Nobes (2008) used the following four basic dimensions of culture which defined by Hofstede (1984):

- *Individualism versus collectivism*

Individualism stands for a preference for a loosely knit social framework in society wherein individuals are supposed to take care of themselves and their immediate families only.⁵⁵

- *Large versus small power distance*

Power distance is the extent to which the members of a society accept that power in institutions and organizations is distributed unequally.⁵⁶

- *Strong versus weak uncertainty avoidance*

Uncertainty avoidance is the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity.⁵⁷

- *Masculinity versus femininity*

Masculinity stands for a preference in society for achievement, heroism, and assertiveness and material success.⁵⁸

Christopher Nobes (2008) also mentioned the following ‘accounting values’ developed by Gray (1988): Professionalism versus statutory control; Uniformity versus flexibility; Conservatism versus optimism; Secrecy versus transparency.

Legal systems

It is clear that the nature of accounting regulation in a country is affected by its general system of laws. There’re two categories of western legal systems: common law and codified Roman law. And Christopher Nobes (2008) believes that even if a country’s regulatory system for accounting is affected by the nature of its legal system, the accounting rules and practices might be more affected by other issues. At the

55 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 26

56 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 26

57 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 26

58 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 26

extreme, a country might adopt International Financial Reporting Standards for some or all purposes, irrespective of its legal system.⁵⁹

Providers of finance

In Germany, France and Italy, capital provided by banks is very significant, as are small family-owned businesses. By contrast, in the United States and the United Kingdom there are large numbers of companies that rely on millions of private shareholders for finance. Evidence that this characterization is reasonable may be found by looking at the number of listed companies in various countries.⁶⁰

A proposed grouping of countries into types by financial system has been formalized by Zysman (1983) as follows: Capital market systems (e.g. UK, US); Credit-based governmental systems (e.g. France, Japan); Credit-based financial institution systems (e.g. Germany).⁶¹

In conclusion, we suggest that this differentiation between credit/insiders and equity/outsiders is the key cause of international differences in financial reporting.⁶² An initial classification of some countries on this basis is suggested as following:

59 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 28-29

60 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 29

61 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 30

62 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 32

A		B
Strong equity market		Weaker equity market
1.Many outsider shareholders 2.Large auditing profession 3.Seperate accounting and tax rules	Features	1.Core, insider shareholders 2.Small auditing profession 3.Tax dominates accounting rules
Australia United Kingdom United States	Examples of countries	France Germany Italy

Figure 3.2 Initial classification based on corporate financing

Sources: Adapted from Nobes (2008), Comparative International Accounting 10th edition, Chapter 2, p.32.

Other external influences

Other external influences include the framing of a law in response to economic or political events, the adoption of, or convergence with the standards of the International Accounting Standards Board, and the level of inflation etc.⁶³

The profession

The accountancy profession may be a dependent variable, not an explanatory one. The strength, size and competence of the accountancy profession in a country may follow to a large extent from the various factors outlined above and from the type of financial reporting they have helped to produce.⁶⁴

63 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 35-36

64 Nobes, C., & Parker, R.B. (2008). *Comparative International Accounting*, p. 36-37

Chapter 4 Empirical Material in Description

The accounting system in China will be described systematically in this part. Firstly, we will introduce the accounting regulatory mode adopted by China. Then, we will talk about the external and internal causes which influence China's accounting system. Also, the accounting standards of China will be mentioned. We can get an explicit picture about the current situation of the accounting system in China after the introduction of this chapter. Moreover, we will describe the accounting systems in Japan and France separately before our comparative studies in next chapter.

Before introducing the accounting system in China, we would like to briefly describe our results of telephone interviews first. We have tried to contact five authorities that are in charge of Chinese accounting standard setting process; however, we successfully connected with four of them, which are CASC, Accounting Department of Ministry of Finance, CICPA and CSRC. The one we can not get through is ASC since the telephone number we got from their website does not exist anymore.

Through the telephone interview, we found that CASC, whose member also takes seat in Accounting Department of Ministry of Finance share the same telephone number with Accounting Department of Ministry of Finance. Because the phone call we made to Accounting Department of Ministry of Finance goes directly to the same place with CASC. CICPA, as we can see from their website, they are said to be independent; however, we found that they still have connections with other authorities. The phone call to CSRC has also been got through successfully.

All the primary data we collected from the telephone interview are supplementary to those we collected from the official websites.

Most of our questions have been answered. However, what we should mentioned here is that CSRC do not have such a consultancy department, thus, we only connected with a complain department. Therefore, the information collected from the respondent of CSRC is limited and it has lower reliability compared with other two respondents. Moreover, most information collected from the respondents is consistent with the publication of their official websites. To sum up, through the interview of different authorities in China, we found all these authorities have explicit and implicit relationship with the state. Accounting Department of Ministry of Finance dominates the accounting standard setting process. To some extent, CASC, CICPA, and ASC have been a dependent or subordinate position of Ministry of Finance. CSRC as a state organ is also controlled by the government. The government power on standard setting is highly centralized. The exact responses of our respondents will be mentioned in the corresponding part.

4.1 Accounting Regulatory Mode of China

Before introducing the regulatory mode of China, it is necessary to introduce the specific process of China's accounting standard setting. From the description of this process, we can obtain a better understanding of the roles and power distribution of different authorities. We will use the theories mentioned in Chapter 3 to conclude the accounting regulatory mode of China.

4.1.1 The Process of Accounting Standard Setting in China

The process of accounting standard setting is regulated and issued by Ministry of Finance. The process can be divided into four phases including proposal stage, draft stage, the stage to solicit opinions from the general public and issue stage. The following part is the specific introduction of these four stages.⁶⁵ We translated these stages from the official website as following:

⁶⁵ <http://www.mof.gov.cn/kjs/>

Proposal Stage

The Accounting Department which belongs to Ministry of Finance of China put forward a proposal about the accounting standards according to the needs of national economic development, and takes advices from China Accounting Standards Committee (CASC) and other related parties. This proposal should contain the background and reasons for the new standards.⁶⁶

Based on the suggestions of CASC and other related parties, the Accounting Department should modify the proposal and get the approval from the head of Ministry of Finance in order to set up the project on the accounting standards officially.⁶⁷

The Accounting Department should notify the state of the proposal to CASC and announce to public. CASC should set up panel for the project, develop subject study and form the research report with reference to the project on the accounting standards and the proposal put forward by the Accounting Department.⁶⁸

Draft Stage

After approving and initiating a project, the Accounting Department should establish Drafting Group immediately and notify CASC the members and related information of the Drafting Group.⁶⁹

Drafting Group should propose working plan and timetable with regard to the project in time. Based on the related research report and investigation, Drafting Group should finish the discussion paper and submit it in order to get comment from CASC. Then, after modification, Drafting Group should complete the exposure draft.⁷⁰

66 <http://www.mof.gov.cn/kjs/>

67 <http://www.mof.gov.cn/kjs/>

68 <http://www.mof.gov.cn/kjs/>

69 <http://www.mof.gov.cn/kjs/>

70 <http://www.mof.gov.cn/kjs/>

Stage to solicit opinions from the general public

The Accounting Department should distribute the exposure draft through General Office of Finance of respective provinces as well as related departments under the State Council, and publish it on the website of CASC and other major media. In addition, forums, seminars and other forms of discussion should be held in order to solicit opinions from public.

Drafting Group should collect the feedback from public and revise the exposure draft into final draft. The Accounting Department should submit the final draft to CASC for comment again.⁷¹

Issue Stage

Draft Group should propose the draft standard for examination according to the advices from CASC. After getting the approval, the new standards should be issued and implemented by Ministry of Finance.⁷² The process of accounting standard setting is simply showed by the followed flow chart:

71 <http://www.mof.gov.cn/kjs/>

72 <http://www.mof.gov.cn/kjs/>

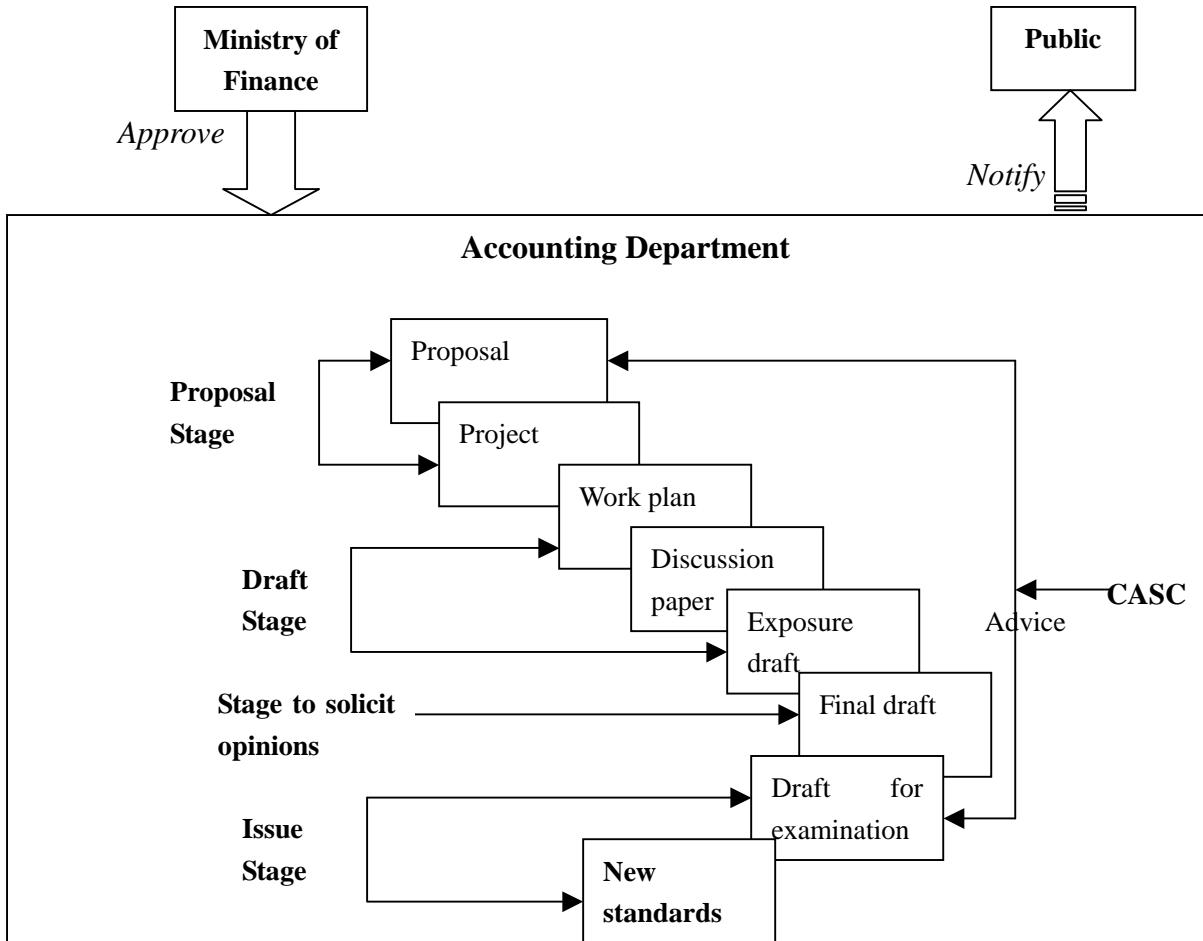


Figure 4.1 the process of accounting standard setting in China

4.1.2 Different Authorities in Chinese Accounting Standard Setting System

From the previous introduction of the process of accounting standard setting in China, we can easily find out the Accounting Department of Ministry of Finance and CASC are the main actors involved in the process. We will figure out the functions and relations of the two authorities as well as other important roles in China's accounting system in the following part. We translated the main responsibilities of different authorities, and most of the information is confirmed by the telephone interviews.

Accounting Department of Ministry of Finance

Accounting Department is one of twenty five departments which govern by Ministry of Finance of China. According to the statement of Chinese official website, the main functions of Accounting Department is to manage the national accounting affairs;

study and propose advices on the innovation and development of accounting; draft and implement accounting standards and unified state accounting regulations; strengthen the international communication on accounting and promote the international accounting convergence and equivalence; regulate and implement the standards on internal control and related methods on implementation; undertake the work of examination on Certificate of Accounting Professional and Qualification Certificate of Speciality and Technology in Accounting; launch the training program on senior accounting professionals and guide the continue education of accountant; organize the national accountant appraisal contest; regulate the development plan and rules on Certified Public Accountant, deal with the examination and approval, registration, filing and management of related administrative affairs; guide the research on accounting theories etc. We can draw up that Accounting Department is in charge of standard-setting and overseeing from the above functions of Accounting Department as well as our telephone interview of the officials of Accounting Department.⁷³

Accounting Department includes seven divisions: General Office, Policy Making Division One, Policy Making Division Two, Accountant Management Office, Standard Setting Division One (including Secretariat of Accounting Informatization Committee), Standard Setting Division (including CASC Office) and CPA Division. From these divisions, we can discover that CASC is one sub-division under the governance of Accounting Department. Since the important influence during the process of accounting standard setting, we need to introduce it separately in the next part.⁷⁴

China Accounting Standards Committee (CASC)

CASC, as the consulting organization for China's accounting standard setting, has been established since October, 1998. It was restructured successfully in 2003 and

73 <http://www.mof.gov.cn/kjs/>

74 <http://www.mof.gov.cn/kjs/>

composed of twenty-two committee members whom hired by Ministry of Finance and came from government, accounting academic field, accounting professional organization, intermediary and business community etc. Lou Jiwei, Vice Minister of Ministry of Finance, is the chairman of CASC. Wang Jun which is also the Vice Minister of Ministry of Finance is the Secretary-General of CASC. Chief of office of CASC is the chief of Accounting Department. There are three sub-professional committee under CASC, including accounting theory committee, corporate finance committee and government & non-profitable organization accounting committee. The work plan of CASC is set out by Ministry of Finance.⁷⁵

There are 106 consultancy experts employed by CASC and they assist the work of CASC. They has comprehensive representativeness since they are from government, accounting academic field, accounting professional organization, accounting intermediary, stock exchanges and business community.⁷⁶

CASC sets up several panels which carry on the consultancy work, including accounting theory group, international cooperation group, corporate finance group, financial accounting group, government accounting and non-profitable organization accounting group etc. The group leader is selected from the experts employed by CASC.⁷⁷

The organization chart of CASC is as follows:

75 <http://www.casc.gov.cn/>

76 <http://www.casc.gov.cn/>

77 <http://www.casc.gov.cn/>

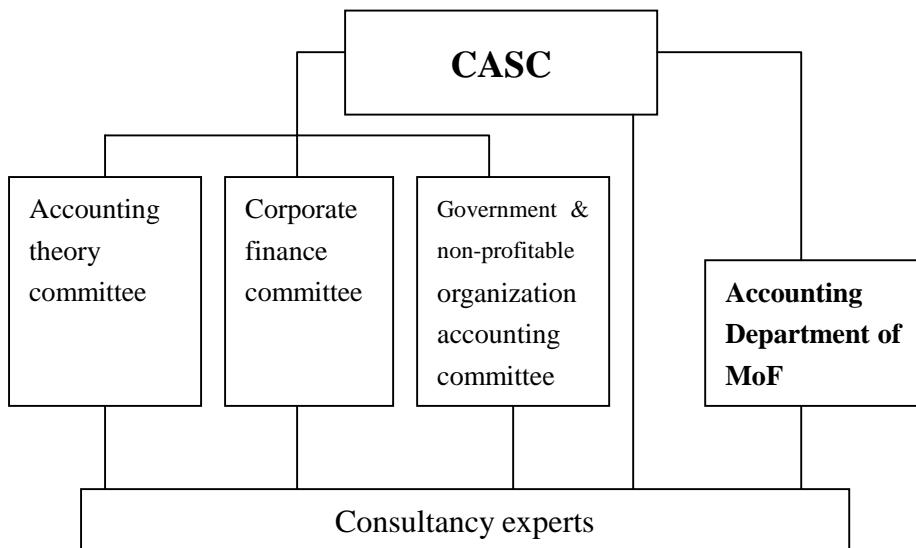


Figure 4.2 the organization chart of CASC.

Source: The official website of Ministry of Finance (MoF) of China,
http://www.casc.gov.cn/wyhs/200607/t20060703_337192.htm

The main functions of CASC include: first, provide advisory advices on the overall plan, style, structure and establishment of project of accounting standards; second, provide advisory advices on the selection of important accountant arrangement methods of accounting standards; third, provide advisory advices on the basic theories related to the financial accounting conceptual framework; four, provide advisory advices and feedback on the implementation of accounting standards.⁷⁸

From the statements above, we can generalize that CASC plays the consultancy role in the process of accounting standard setting. CASC as a subdivision of Accounting Department is not only the accounting consultancy experts who have a great influence on the process of standard setting, but also one of the main channels for the other stakeholders joining in the process of accounting standard-setting.

China Securities Regulatory Commission

⁷⁸ <http://www.casc.gov.cn/>

China Securities Regulatory Commission (CSRC) was established since 1992, which is governed by State Council directly. It supervises the stock market and futures exchange market uniformly according to related laws and regulations such as The Law of Securities, The Law of Investment Securities Fund and Commodity Futures Trading Regulation etc.⁷⁹

International Advisory Committee of CSRC, which was founded in 2004, is composed of ex-supervisors of international stock and exchange market, celebrities from international financial institutions and academic professors. These experts introduce the information and experience from international stock markets and provide consultancy advices in order to promote the opening and healthy development of Chinese stock markets.⁸⁰

There are seventeen Divisions, four Institutions directly under CSRC and two specialized commissions which are Stock Issuance Examination Commission and Administrative Penalty Commission set up in CSRC. In addition, there are thirty-six supervision bureaus located in different provinces, areas and cities as well as Shanghai Stock Supervisor Office and Shenzhen Stock Supervisor Office.⁸¹

The responsibility of CSRC has been stated in Stock Act as follows:

- setting the related oversight and administrative regulations and rules for stock markets and executing the power of examining and approving;
- supervising the issuance, listing, trade, register, depository and liquidation according to law;
- overseeing the business activities of issuers, listed companies, securities agencies, stock exchanges, fund management companies, securities service agencies, the securities registration and clearing institutions;

79 <http://www.csac.gov.cn>

80 <http://www.csac.gov.cn>

81 <http://www.csac.gov.cn>

- setting the qualification standards and code of conduct for practitioner in stock market as well as supervising and implementing;
- overseeing and examining the publication of information on issuance, listing and trade of stocks;
- guiding and supervising the activities of Securities Industries Association;
- investigating and punishing the activities violated the laws and regulations of stock market;
- other responsibilities regulated by laws and administrative regulation.⁸²

In addition, CSRC can establish cooperative mechanism on supervision and administration with securities regulatory authorities from other countries and areas to implement cross-border oversight.⁸³

The local supervision bureaus are in charge of the front line of oversight. Self-regulatory organizations such as Stock Exchanges, Futures Exchanges, Securities Industries Association, Futures Industries Association and Securities Registration and Clearing Institutions etc. are also supervised their members, listed companies and the exchange activities of stocks. The self-discipline and the front line of oversight effectively supplement the supervision of stock market.⁸⁴

Since 2007, ASBE has been fully implemented under the oversight of CSRC. To be specific, all listed companies have to adopt ASBE from January 1st, 2007. Stocks companies, funds companies, futures companies and securities investment funds in financial services sector have to adopt ASBE since July 1st, 2007. In order to realize the transition from the old accounting standards to ASBE smoothly, CSRC strengthened the enforcement of ASBE and cleared the suggestion for disposal on the accounting problem with reference to the implementation of ASBE. Thus, the quality

⁸² <http://www.csac.gov.cn>

⁸³ <http://www.csac.gov.cn>

⁸⁴ <http://www.csac.gov.cn>

of accounting information had been ensured.⁸⁵

According to Securities Act, CSRC has the right to administrate accounting firms which deal with the business related to stocks. Except for examining and approving the qualification of accounting firms, CSRC began a large scale on-site inspection of accounting firms since 2007, which focused on the internal quality control system and the implementation of specific auditing work of accounting firms.⁸⁶

Based on the statements above, we can conclude that CSRC as the administrator of stock market is another important enforcer and supervisor of accounting standards except for Accounting Department of Ministry of Finance. It executes its power by regulating and examining the financial reports of listed companies. Also, it has the right to punish the listed companies which violate ASBE in their interim or annual reports. This assertion is also confirmed by the officials of CSRC in our telephone interview.

The Chinese Institute of Certified Public Accountants (CICPA)

The Chinese Institute of Certified Public Accountants, which is a social organization as legal person, administers the industry of CICPA and has been established since 1988. CICPA has participated in The Confederation of Asian and Pacific Accountants the Confederation of Asian and Pacific Accountants (CAPA) and International Federation of Accountants (IFAC). It also built up friendly relationships on cooperation and communication with more than fifty aboard accountant professional organizations.⁸⁷

The high authority of CICPA is the Membership Representative Conference which elects the Council. And the Council elects the Chairman, Vice-chairman and the

85 <http://www.csrc.gov.cn>

86 <http://www.csrc.gov.cn>

87 <http://www.cicpa.org.cn/>

Standing Council. There are several specific committee and professional committee under the Council. When the Council is not in session, the Standing Council assumes its responsibilities. Secretariat is the standing executing agency of CICPA.⁸⁸

CICPA is responsible for the following duties:

- examining, approving and administrating the members as well as guiding the local institute of CPA to handle the registration of CPAs;
- setting, supervising and examining the enforcement of the auditing standards and rules;
- organizing the annual examining of the qualification of CPAs and operation of CPAs and accounting firms;
- setting the self-regulatory standards and discipline the activities violated the standards;
- organizing and implementing the unified national examination for certified public accountants;
- organizing and promoting the training of members of CICPA;
- organizing business exchange, launching theoretical researches and providing technical support;
- developing the publicity of industry of CICPA;
- coordinating the internal and external relationships, supporting the practices of members and the legitimate interests of members according to laws;
- developing international communication represented by Chinese CPAs;
- guiding the work of local institutes of CPA;
- dealing with other related works authorized by laws, administrative decrees and the State organs.⁸⁹

According to our interview with the officials from CICPA, we acknowledge that CICPA is actually a public institution belonging to Ministry of Finance which only

88 <http://www.cicpa.org.cn/>

89 <http://www.cicpa.org.cn/>

sustains the nominal independence. We also can know it from the above description about the responsibility of CICPA.

Accounting Society of China (ASC)

Accounting Society of China is a non-profitable academic professional association composed by different professional organizations and individuals in accounting field of China. ASC is subject to the professional guidance, oversight and administration from Ministry of Finance and Ministry of Civil Affairs. Also, Government grant is one of the important finance sources of ASC.⁹⁰

Similar with the organization of CICPA, ASC also has the Membership Representative Conference which is the high authority. The Council, Standing Council of ASC is in charge of the daily work. What should mention here is that the candidates of Council member are not just accounting professionals, but also the representative of Ministry of Finance. That means government participates in the executive affairs of ASC directly.⁹¹

The business scope of ASC is as follows:

- organizing and coordinating the national scientific manpower on accounting, developing the accounting theoretical research and academic communication and promoting the application of research findings;
- summarizing our experiences of accounting practices and education, studying and promote the educational innovation of accounting.
- editing and publishing accounting publications, books and materials;
- developing multi-level and multi-forms intellectual services based on the advantages of ASC, including developing the training of senior accountants and accounting consultation etc;
- developing international academic communication and cooperation in accounting

90 <http://www.asc.net.cn>

91 <http://www.asc.net.cn>

area;

- connecting government and members through ASC and operating related works authorized by government and other institutions;
- other activities are in conformity with the objectives of ASC.⁹²

The statements above are coming from the official website of ASC. We find that ASC is not a pure independent association, but an academic organization depends much on government.

These five major authorities existed in Chinese accounting system has been introduced above. Accounting Department of Ministry of Finance is the accounting standard-setter as well as the enforcer and supervisor. CASC which belongs to Accounting Department is the consultant for accounting standard-setting. CSRC, as the administrator of stock markets in China, also enforces and supervises the application of accounting standards of listed companies. CICPA is in charge of the industry of CPAs as well as the standard-setter, enforcer and supervisor of auditing. ASC is a quasi-official accounting academic association.

Other stakeholders, for example, the companies- especially the listed companies which use the accounting standards directly, have little influence in the process of standard setting. Unlike their counterparts in the US which is important participants in the accounting standard-setting process and give pressures to the standard-setter by political lobbying when an unfavorable accounting standards is going to issue, the business world in China takes an attitude of rational apathy to the accounting standard setting. In 2002, Accounting Department of Ministry of Finance solicited opinions from the public on the new accounting standards, however; there are only four feedbacks received. The advices for the exposure draft mainly came from the universities and the minutes of conference which hold by local financial sectors.

⁹² <http://www.asc.net.cn>

There is not any suggestion from listed companies which is the user of the accounting standards. The impact of culture and politics for thousands of years is the reason behind this phenomenon. Meanwhile, accounting firm as another user of accounting standards act more actively than company. For instance, since 1993, Deloitte has been employed as a consultant of Ministry of Finance and contributed much effort to the standard-setting process of ASBE.⁹³

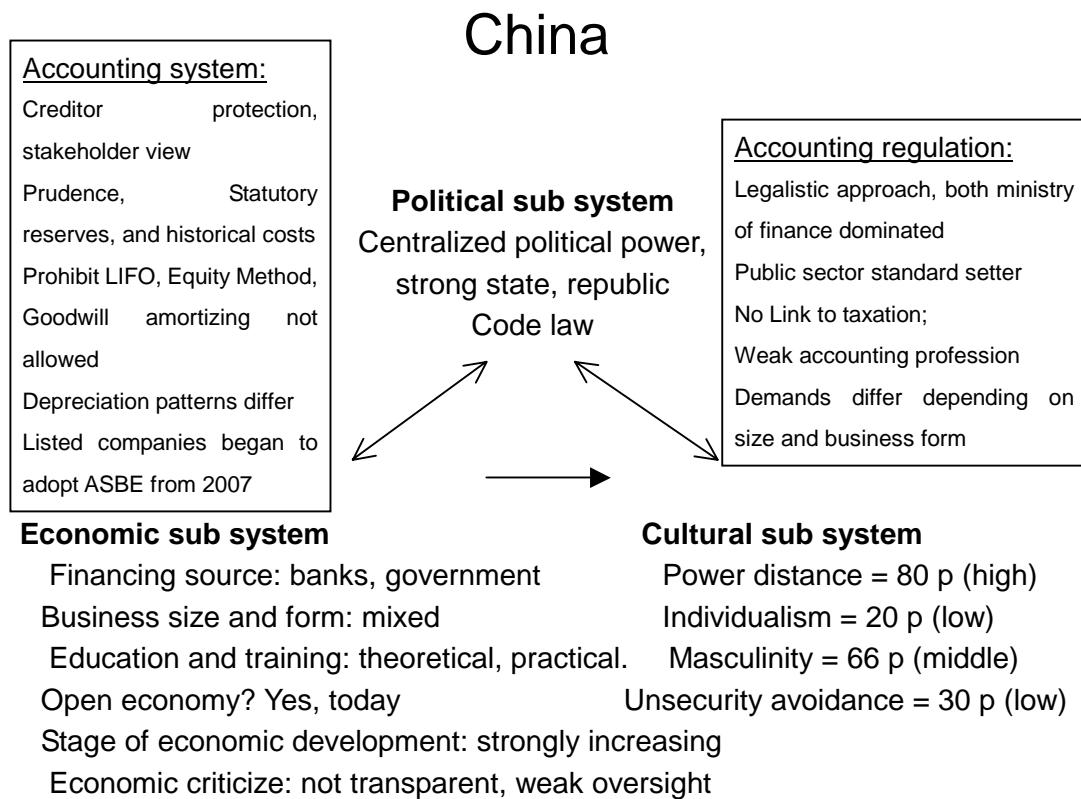


Figure 4.3 the overview of Chinese accounting system

4.2 Factors that Influence Chinese Accounting Standard Setting

There are a lot of factors that influence accounting standard setting in a specific country. And what kind of factors that influence Chinese accounting standard setting

⁹³ Wang, W.(2008) Main Actors in Accounting Policy Making.

is just what we concern. Here we classified these factors into two categories - external and internal ones. By analyzing these critical factors we'd like to develop a better understanding about Chinese accounting standard setting.

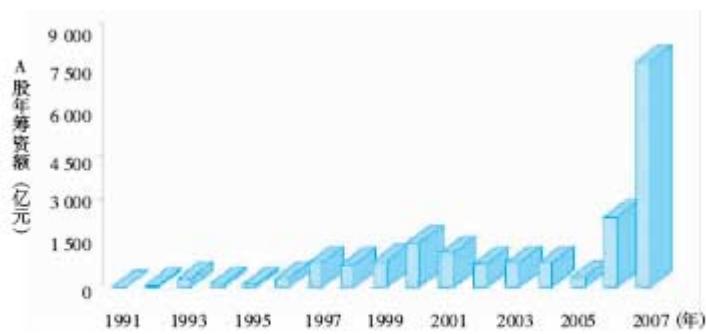
4.2.1 Economic Factor

As the most important economic factor that influence accounting system, providers of finance will influence the accounting system both directly and indirectly in every country, China is no exception. As we can see, the countries with strong equity market usually tend to choose private sector mode, while those with weak equity market usually tend to choose public sector mode.

Generally speaking, the equity market is relatively weak, and the providers of finance in Chinese corporations are mainly the banks. Chinese economic has been transferring from planned economy to market economy since 1980. Before 1980, state-owned banks were the main source of finance for corporations. However, as the development of the economy reform as well as the entry into WTO, the capital market develops quickly, and the private and institutional investors begin to increase. In 1990, the establishment of Shanghai Stock Exchange and Shenzhen Stock Exchange indicated the national capital market came into being. According to the statistics from China Securities Regulatory Commission, there're two stock exchanges, three commodities futures exchange and one financial futures exchange in China by 2007. The marketable securities traded in the stock exchanges included shares, bonds, securities investment funds, warrants and commodities futures.⁹⁴

As we can see from the Figure, there's a huge increase in the amount of capital raised through A Share in 2007. It reached 772.8 billion (RMB), which is as high as the sum of the previous six years. And according to the data of World Federation of Exchanges, China is in the leading place in terms of the amount of capital raised.

⁹⁴ China Securities Regulatory Commission Annual Report (2007)



資料来源：中国证监会。

图2-1 A股市场历年筹资情况（1991 ~ 2007年）

Figure 4.4 Capital raised through A Share from 1991-2007 (in 100 million RMB)

Source: China Securities Regulatory Commission Annual Report (2007)

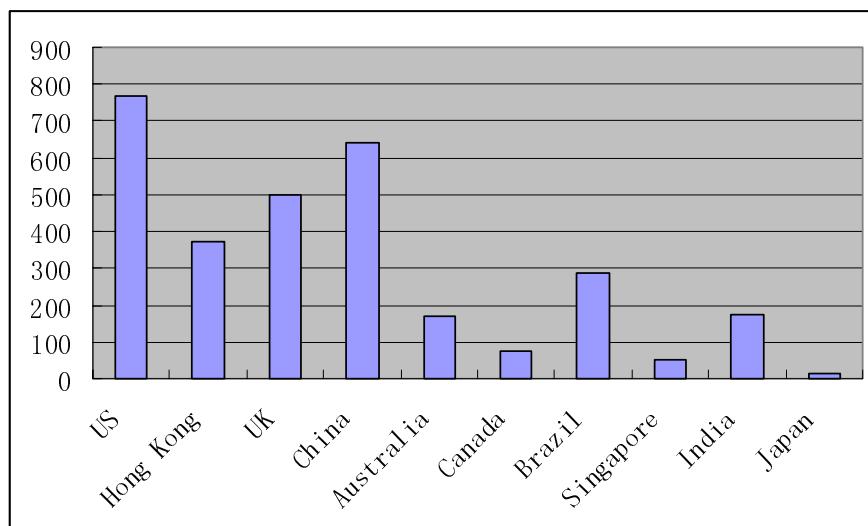


Figure 4.5 Capital raised by Initial Public Offer in 2007 (in 100 million USD)

Source: China Securities Regulatory Commission Annual Report (2007)

By 2007, there're 1550 listed companies in China, and the total share is 2241.685 billion shares.

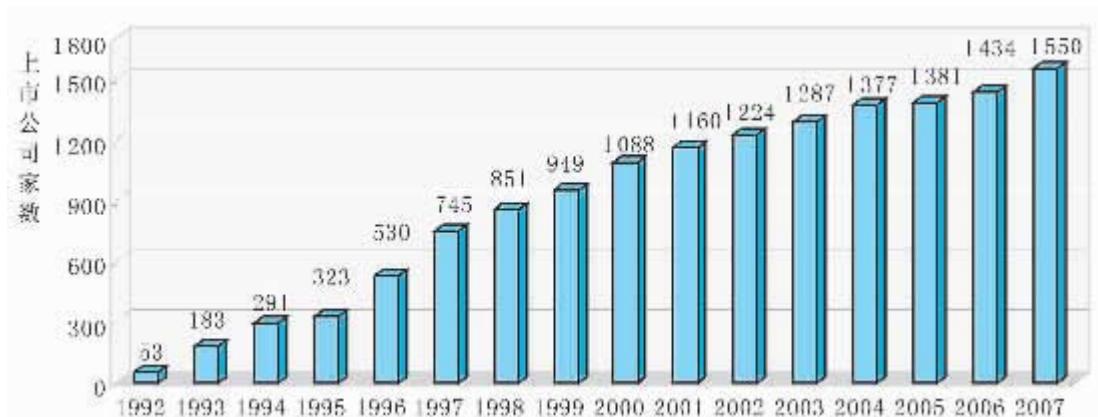


Figure 4.6 the number of listed companies in China from 1992-2007

Source: China Securities Regulatory Commission Annual Report (2007)

The amount of capital rose through overseas listed foreign shares reached 12.697 billion (USD) by 2007. In 2007, the total contract value of A Shares is 46055.622 billion (RMB), and the daily average contract value is 190 billion (RMB).

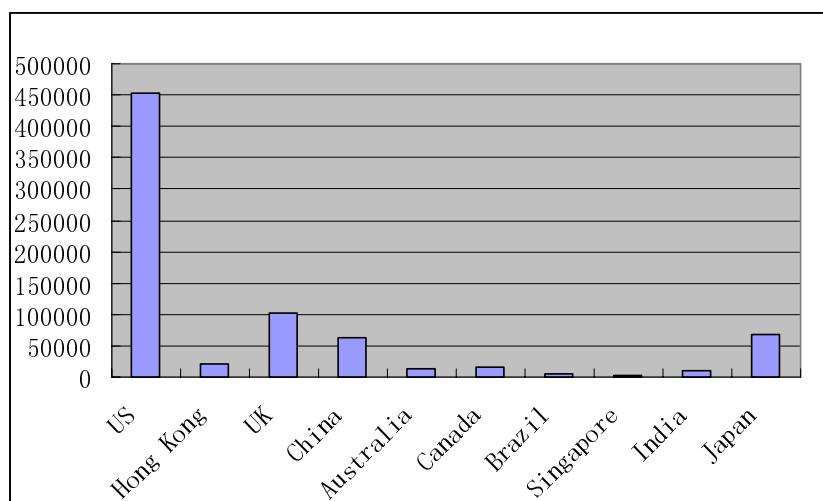
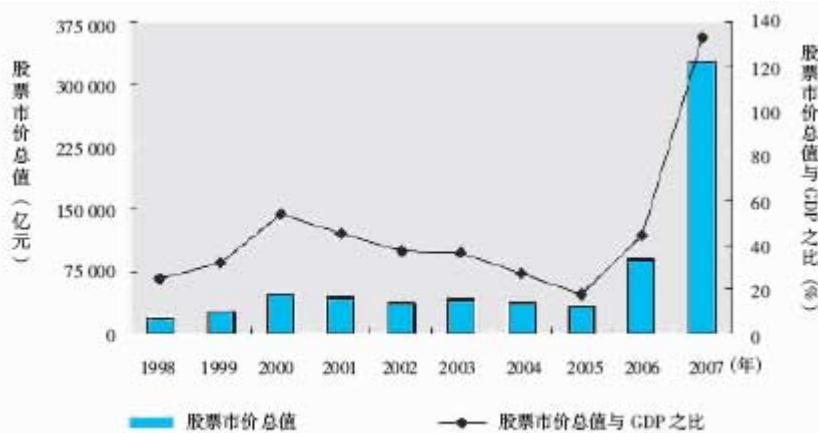


Figure 4.7 Total turnover in different countries in 2007 (100 million USD)

Source: China Securities Regulatory Commission Annual Report (2007)

The total market value of listed companies traded in both Shanghai Stock Exchange and Shenzhen Stock Exchange is 32.71 trillion (RMB), which is 133% of the GDP in the same year.



资料来源：Wind资讯。

■ Market capitalization ●—● the ratio of market capitalization and GDP

Figure 4.8 Market capitalization (100 million RMB) and the ratio of market capitalization and GDP

Source: China Securities Regulatory Commission Annual Report (2007)

The total investors who have opened account in stock exchange reached 139 million by 2007. And the institutional investors reached 517.8 thousand, whose shareholding accounts for 46% of the negotiable market capitalization.⁹⁵

4.2.2 Legal System

There're generally two kinds of legal systems in the world. One is common law system; the typical countries adopting this system are UK, US, Ireland, India, Australia and so on. The other is codified Roman law system; the typical countries using this system are Germany, France, Italy, Netherlands, Japan and so on. And China can also be classified into the codified Roman law legal system.

According to Nobes, the countries that have a system of law that is based on the Roman *ius civile* as complied by Justinina in the sixth century and developed by European universities from the twelfth century. Here, rules are linked to ideas of

⁹⁵ China Securities Regulatory Commission Annual Report (2007)

justice and morality; they become doctrine. The word ‘codified’ may be associated with such a system. This difference has the important effect that company law or commercial codes need to establish rules for accounting and financial reporting.

We can see from the related accounting laws in China are affected by the codified Roman law system. Rules, instead of cases are written in detail in these laws. We have referred to the Accounting Law of the People’s Republic of China, The Corporation Income Tax Law of the People’s Republic of China and so on, the rules has been written down in all these laws just the same as other laws in China. As a result, the accounting standards are mandatory in China, and it is similar with the situation in France and Germany, which choose public sector too.

Moreover, the Accounting Standard for Business Enterprise (ASBE) is mentioned in the Accounting Law and it is one component of the law in China. The specific rules of practical accounting, financial statement preparation as well as the format are written in the ASBE. In fact, all the accounting regulations and laws has been established and enforced by the government since 1985. The Accounting Law also states that the Accounting Department of Ministry of Finance is in charge of the national accounting affairs. The degree of government intervention in China is relative high.⁹⁶

4.2.3 Culture

The culture in China affects the accounting system in an indirect way. Confucianism has a huge impact on Chinese culture for a long time, thus China is a relative conservative country. As a socialist country, China advocates collectivism. As we can see from Greert Hofstede’s research, the individualism index in China is 20, which is quite low compare to other countries. While the power distance index in China is higher than others. This index indicates that people in China accept the power in institutions and organizations is distributed unequally. As we know, the degree of

⁹⁶ <http://www.casc.gov.cn/>

centralization of authority is high in China, and people used to obey what authority requested. That is to say, stakeholders tend to follow the laws and regulations passively. They seldom take part in the standard setting process by self-organizing. In a culture like China, the government is recognized as the body to make laws and regulations. The uncertainty avoidance index is relatively low, especially compared with Japan which prefers rigid code of belief and behaviors and are intolerant towards deviant persons and ideas. We think this can be one of the reasons that leads Chinese regulatory behaviors are less strict and less detailed than Japan.

Country	Power distance index	Individualism	Masculinity	Uncertainty avoidance index
US	40	91	62	46
UK	35	89	66	35
Australia	36	90	61	51
Canada	39	80	52	48
France	68	71	43	86
Germany	35	67	66	65
Hong Kong	68	25	57	29
India	77	48	56	40
China*	80	20	66	30
Japan	54	46	95	92

* Estimated values

Figure 4.9 Greert Hofstede Culture Dimensions

Source: Hofstede's Cultural Attitudes Research

4.2.4 Other External Factors

The cost/benefit ratio as one of the factor may affect the accounting standard setting. Ministry of Finance as the standard setter is capable to cover the cost of standard

setting. As the development of globalization, there's a demand for a high quality and widely-accepted standard. As a result the benefit of the new standard adopted from 2007 is greater than the cost.⁹⁷

As the accounting theories will affect the accounting standard setting directly. The development of accounting theories determines the quality of the standard. Now Chinese authorities are paying more attention to the academic research on accounting. The Accounting Society of China is focus on the development of accounting theories. Meanwhile, they are making efforts on popularizing Chinese research results internationally, and encouraging professionals to hold positions in international research institutions.⁹⁸

As we know, the current accounting standard may affect the next edition of the standard. The future accounting standard in China will remain most part of the current one if there are any changes need to be made. The current accounting standard which starts to be in use from 2007 is close to IFRS in many aspects. Since China is making effort toward the global convergence on accounting standard, we can imagine that China is likely to adopt IFRS (or equivalence of IFRS) in the future. And we believe that there's a trend that the dominate role of government as a standard setter will diminish gradually in the future. Instead, the private sector, such as IASB will take its place. The current meeting of Asian-Oceanian Standards Setters Group discussed issues related to establishing the Asian-Oceanian Standards Setters Group (AOSSG) to promote the adoption of or convergence with the IFRS in the region. The establishment of AOSSG will probably lead the transformation of accounting regulatory style in this region.⁹⁹

4.2.5 Profession

97 Li, N. (No.13, 2008): The Study on Public Standard Setter in Accounting Policy Making, Productivity Research

98 <http://www.asc.net.cn/>

99 http://www.mof.gov.cn/kjs/zhenwguxinxi/gongzuotongzhi/200904/t20090417_134217.html

The countries with strong profession tend to use private sector in accounting standard setting. It is difficult for those countries with weak profession to adopt private sector. At present, the accounting profession is relatively weak in China. The professional proficiency, moral standard and the theoretical basis still need to be improved. The two organizations that affect the profession are Chinese Institute of Certified Public Accountants (CICPA) and the Accounting Society of China (ASC). However, neither of them are real independent organizations. By the end of 2008, there're 10 million people in China who have got the Certificate of Accounting Qualification issued by Ministry of Finance. This is the basic requirement for the practitioners in accounting area. And the number of people who have got the Qualification Certificate of Speciality and Technology in Accounting are 2.430 million (Elementary level), 1.220 million (Intermediate level) and over 80,000 (High level) by the end of 2008. Moreover, there're 87,000 Chinese Certified Public Accountants (CPA) by the end of 2008.¹⁰⁰ As the need of professionals in accounting area, the government began to promote the training programs that aim at educating more qualified, international professionals.

Generally, we found that China is more suitable to adopt public sector mode after analyzing the functions of authorities engaged in accounting standard setting and causes influencing the regulatory mode.

4.3 The Current Accounting Standard---ASBE

The new revised Accounting Standard for Business Enterprise has been adopted since 1st January, 2007 in China. It is comprise of four parts. The first one is the General Principle which contains eleven items, such as assets, liabilities, equities, revenues, expenses, profits, financial statements and so on. The second part includes 38 specific rules, such as inventories, investment, fixed assets, intangible assets, construction contract, consolidation, financial instrument, cash flow statement, consolidated

100 <http://www.mof.gov.cn/mof/>

accounts and so on. The third part includes 38 interpretations regarding to the 38 specific principles above, for example, the first one interpretation is about the inventories. The last part is appendix which specified the classification of accounting accounts and the process of major transactions, for example how to do the bookkeeping about cash in a company. As we can see that the ASBE is quite close to IFRS in many aspects. It can be said as an outcome of global convergence.

4.4 Accounting Regulatory Mode of Japan

4.4.1 The Process of Accounting Standard Setting in Japan

In Japan, they are choosing a private sector as their accounting standard setter which is ASBJ. According to the Regulations controlling the Affairs of the Accounting Standards Board and Technical Committee, the following steps are included in the process of the standard setting in Japan.¹⁰¹

Establishment of standing technical committees

For matters related to the interpretation of standards and for research and deliberation of international issues may be established as standing technical committees by obtaining resolutions of the Board.

Appointments of chairpersons of technical committees

The chairperson of the Board shall appoint the chairperson and the members of technical committees as soon as the Board determines the subjects to be deliberated and decides to establish the technical committees to carry out the deliberations.

Monitoring the progress of the deliberations of technical committees

The Board shall have the right to demand the chairperson of technical committees provide reports on the progress of their deliberations, they also shall have the right to be present at deliberations of technical committees at any time as observers.

¹⁰¹ <http://www.asb.or.jp>

Preparation and announcement of points to be debated

The technical committees shall submit draft summaries the points to be debated, and the Board shall finalize the points to be debated. And these points to be debated are available to the public shall be a minimum of one month in principle.

Preparation and announcement of drafts of documents to be made available to the public

The technical committees shall submit the drafts and forwarded opinions to the Board. And the Board shall finalize the draft, which shall be made available in order to solicit public opinion without delay. The period that the drafts are available to the public shall be a minimum of one month.

Development and announcement of business accounting standards

The technical committees shall submit drafts and forwarded opinions to the Board, and the Board shall deliberate upon the drafts and develop the standards.

Dissolution of technical committees

Technical committees shall be dissolved when deliberation of all subjects has been completed.¹⁰²

4.4.2 Different Authorities in Japanese Accounting Standard Setting System

The authorities involved in the process of accounting standard setting:

FASF

The Financial Accounting Standards Foundation (FASF) was established in July 26, 2001. The objectives of FASF are to contribute to the sound development of financial practices in Japan and sound capital markets by making recommendations and contributions to the international accounting system by studying, researching, and developing generally accepted accounting standards, and by studying and researching disclosure system and various other practices pertinent to business finance systems.

The executives of FASF include president, managing director, director and auditor.

¹⁰² <http://www.asb.or.jp>

These people from different organizations, such as listed companies, securities exchanges, universities, banks, accountant firms, insurance companies, Japanese Institute of Certified Public Accountants (JICPA) etc.¹⁰³

ASBJ

The Accounting Standard Board of Japan (ASBJ), a core organization within the FASF, is directly responsible for the development and deliberation of accounting standards and the foundation's contributions to the development and improvement of international accounting standards. The chairman and vice chairman are now full-time employees from ASBJ. And there're both full-time board members direct form ASBJ and other members from different organizations, such as Tokyo-Mitsubishi, Ltd., Nippon Steel Corporation, Kyoto University, JICPA, Nippon Life Insurance Co., and Nomura Securities Co., Ltd. As we can see from the Organization of ASBJ (2008), there're various committees for different issues, for example they have the International Issues Standing Committee, as well as specific committees like Fixed Asset Accounting Technical Committee and Technical Committee for Revenue Recognition. Besides, there're also Working Groups, such as conceptual framework, and Projects like ASBJ/IASB convergence.¹⁰⁴

The establishments of FASF/ASBJ indicated the reform of accounting standard setting mode in Japan. The new established accounting standard setting system in Japan can be classified as private mode. And Japan followed the example of US, whose system consists of a foundation as well as a relative independent standard setting board. To be specific, the role of FASF is quite close to Financial Accounting Foundation (FAF) in the US. And Financial Accounting Standards Board (FASB) is also a relative independent standard setting board, which is subordinated to FAF.¹⁰⁵

¹⁰³ <http://www.asb.or.jp>

¹⁰⁴ http://www.asb.or.jp/index_e.php

¹⁰⁵ http://www.asb.or.jp/index_e.php

JICPA

The Certified Public Accountants Act ("CPA Act") provides the basic framework for the audit profession in Japan. It includes the scope of services to be provided by Certified Public Accountants ("CPAs"), establishment of the national CPA examination, requirements for CPA qualification, establishment of audit corporations, duties and responsibilities of CPAs, roles and organization of the Japanese Institute of Certified Public Accountants ("JICPA"), roles of the regulatory authority, and the disciplinary and criminal sanctions applicable to CPAs. The CPA Act grants the Financial Services Agency ("FSA") the authority to oversee CPAs and the JICPA. The CPA Act has been amended twice over the last several years.¹⁰⁶

As noted above, the FSA has oversight responsibilities over the audit profession in Japan. The CPA examination is conducted by the Certified Public Accountants and Auditing Oversight Board ("CPAAOB"), an arm of the FSA (Article 35 of the CPA Act). The FSA also oversees the JICPA.¹⁰⁷

The amended CPA Act stipulates the establishment of the CPAAOB as a public oversight body to monitor and oversee CPAs and the JICPA quality control review by reorganizing the CPA Investigation and Examination Board, which formerly oversaw CPA examinations and disciplinary actions for CPAs.¹⁰⁸

Ministry of Finance, Japan (Okurasho)

In 2001, the Ministry of Finance of Japan decided to give up the power of setting accounting standards and empower the private sector to be the standard setter. And they'd like to transfer this power step by step according to the performance of the private sector. The Ministry of Finance of Japan is responsible for the Commercial Code, the Securities and Exchange Law as well as tax law. These three sources will

106 <http://www.hp.jicpa.or.jp/english/>

107 <http://www.hp.jicpa.or.jp/english/>

108 <http://www.hp.jicpa.or.jp/english/>

influence accounting standard setting to some extent. So we can say that the Ministry of Finance has rights reserved to influence accounting standard setting just like the US case in which SEC still has the final word.

In addition, the FSA is responsible for inspection and supervision of private sector financial institutions, and surveillance of securities transactions.¹⁰⁹

Securities and Exchange Surveillance Commission

SESC was established in 1992, within the ambit of the Ministry of Finance for the purpose of ensuring fair transactions in both securities and financial futures markets and maintaining the confidence of investors in these markets.

The responsibilities of SESC are the following:

- Market surveillance which includes market oversight, market movement analysis, and receiving information from the general public;
- Inspections of Financial Instruments Business Operators;
- Administrative monetary penalties investigation;
- Disclosure documents inspection;
- Enforcement-investigation and filing criminal charges;
- Cooperation with overseas regulators;
- Policy proposals.¹¹⁰

To ensure market integrity and protect investors, where necessary, the SESC can submit policy proposals to the Prime Minister, the Commissioner of the FSA or the Minister of Finance, based on the results of the market surveillance including securities inspections or investigations of criminal offences.¹¹¹

The SESC can submit policy proposals after the SESC comprehensively analyzes the

109 www.fsa.go.jp/sesc/english/index.htm

110 <http://www.fsa.go.jp/en/about/pamphlet.pdf>

111 <http://www.fsa.go.jp/en/about/pamphlet.pdf>

results of inspections and investigations. When current laws/regulations or self-regulating rules on securities trading are found to be insufficient, the SESC can propose reviewing current laws/regulations or self-regulating rules on securities trading, presenting specific facts and problems in those regulations. As we can see from the description above, the SESC also can take part in the process of accounting standard setting by submitting the policy proposals.¹¹²

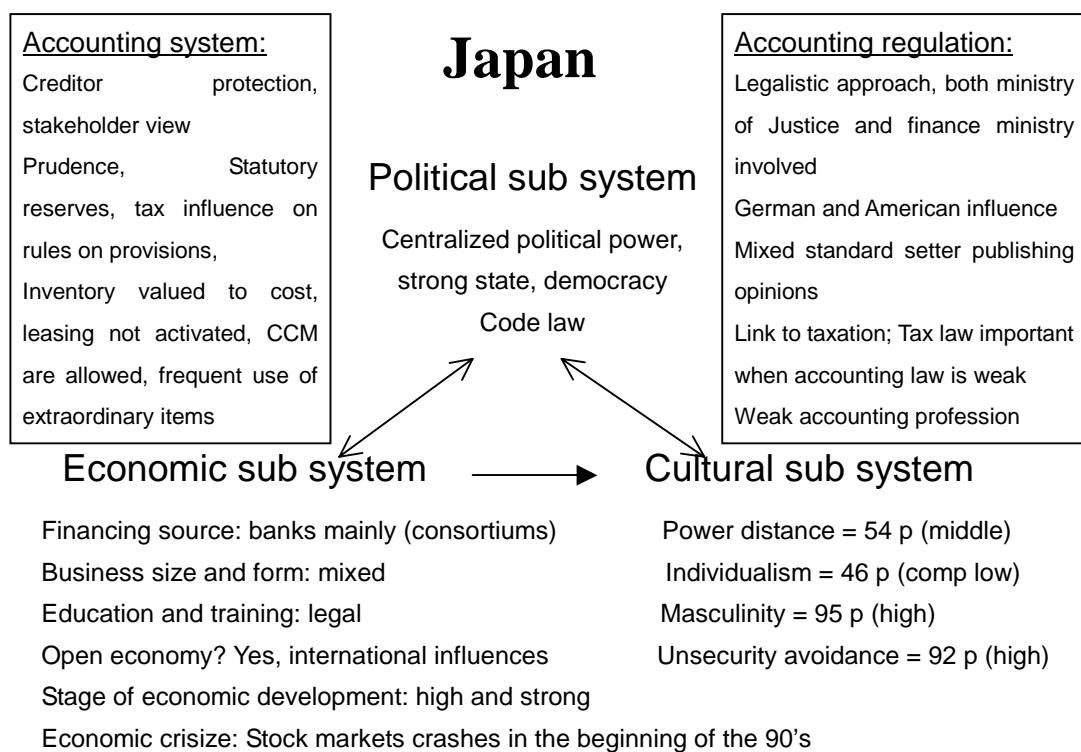


Figure 4.10 the overview of accounting system in Japan

Source: slide from Kristina Artsberg, International Accounting

4.5 Accounting Regulatory Mode of France

First, we should understand the accounting standard setting process as well as the standard setter in France. Then, we will know the power distribution in the process of standard setting through analyzing the different authorities. Finally, the regulatory mode in France can be summed up.

¹¹² <http://www.fsa.go.jp/en/about/pamphlet.pdf>

4.5.1 The Process of Accounting Standard Setting in France

According to the Law of 6 April 1998, the French accounting standard setting involves several steps:

- The “Conseil National de la Comptabilité” (national accounting council) has remained the only body having the necessary means to draft the standards in the form of opinions or recommendations;
- These standards may be then submitted for approval to the “Comité de la Réglementation Comptable” (accounting regulation committee). The CRC issues regulations to which the opinions of the CNC are attached;
- when a regulation has been adopted by the CRC, it is automatically ratified by an interministerial order, signed by the Ministry of Justice, the Ministry of Economy and the Ministry of Budget.¹¹³

As an illustration, the last version of the “Plan Comptable Général” (national accounting plan)¹¹⁴ has been approved under this procedure. The regulations of the CRC are compulsory accounting rules. The opinion of the CNC may also be considered as compulsory (“best practice”) even if some think that this characteristic could be legally challenged.¹¹⁵

In a word, “the CNC issues opinions, most of which are submitted to the CRC and become regulations. Those which do not become regulations are regarded as examples of best practice.”¹¹⁶

4.5.2 Different Authorities in French Accounting Standard Setting System

113 <http://www.iasplus.com/resource/feestudy.pdf>

114 Based on the statements from Nobes-- the PCG is the most distinctive part of French accounting regulation. It is not merely a chart or classified list of ledger accounts but a very detailed manual on financial accounting. Included within it are definitions of accounting terms, valuation and measurement rules, and model financial statements. Many accounting textbooks are based on it. All French accountants have been trained to use it, for recording accounting transactions, for drawing up financial statements and for filling in tax returns.

115 <http://www.iasplus.com/resource/feestudy.pdf>

116 Nobes, C., & Parker, R.B. (2008). Comparative International Accounting. P297

CNC as the French standard setting body is a public governmental organization under the control of the Ministry of Economy and is housed in a building of this Ministry.

The CNC was substantially reformed in 1996 (decree of 26 August) in order to give it the power necessary to act as a genuine standard setting body in France.

The mission of CNC is defined by Article 2 of Decree No. 2007-629 of 27 April 2007:

In conjunction with stakeholders, to:

- Give advices on all the provisions of accounting, whether from domestic or community;
- To advise on standards developed by international or foreign accounting standards and their application;
- Ensure the coordination and synthesis of theoretical and methodological, to gather information, to conduct studies, disseminate all documentation relating to the international accounting standards and accounting education;
- To propose any measures relating to the use of accounts or in the interest of business and professional firms, or for the establishment of national statistics and economic accounts and budgets of the nation. As part of its missions, it may consult with organizations, companies or individuals interested in its work and are consulted by them.¹¹⁷

The regulations are published in the Official Journal of the French Republic after approval by interministerial decree.

The decree adopted in August 1996 was aimed at clarifying the membership of the CNC, its function and operating procedures. After the reform CNC remained an advisory body. And the membership of CNC was reduced from 115 to 58. It comprises a president (a prominent accountant, not a civil servant as previously); six

¹¹⁷ <http://www.cnc.minefi.gouv.fr/>

vice-presidents (including the presidents of the OEC and the CNCC); 40 persons knowledgeable in accounting (including eight nominated by the accountancy bodies); and 11 civil servants (including the president of the AMF). The membership was reformed again in 2007, giving more power to auditors and bankers, but the reform has been criticized as not going far enough to establish institutions capable of responding quickly and effectively to the challenges posed by the initiatives of international accounting standard-setters.¹¹⁸

The “Comité de la Réglementation Comptable” has been established in 1996, is a small, high-powered mixed public/private-sector committee, chaired by the Ministry of Economy and Finance or the Minister’s representative. Its objective is to harmonize the procedures prevailing in France for the adoption of new accounting rules. The CRC comprises 14 members who are composed by:

- Three representatives of the ministries of finance, budget and justice;
- A judge of the “Conseil d’Etat” (which adjudicates on public law);
- The presidents of the AMF (stock exchange regulatory body), the CNC, the OEC (the chartered accountants’ institute) and the CNCC (the auditors’ institute), three representatives of the enterprises, and two representatives of the employees unions;
- A judge of the “Cour de Cassation” (which adjudicates on private law).¹¹⁹

The “Comité de la Réglementation Comptable” has no permanent staff and relies on the “Conseil National de la Comptabilité” for its secretariat. They usually meet several times a year. Their decisions are taken at the majority of the attendants to each meeting.¹²⁰

Unlike the CNC, the CRC is entitled to create new accounting obligations, providing that these obligations are in conformity with the laws and decrees. The CRC is

118 Nobes, C., & Parker, R.B. (2008). Comparative International Accounting. P296

119 Nobes, C., & Parker, R.B. (2008). Comparative International Accounting. P297

120 <http://www.iasplus.com/resource/feestudy.pdf>

empowered to deal with all issues connected with accounting rules. The rules it issued are mandatory for all types of entities, except those governed by public accounting rules. For instance, accounting rules for financial and insurance companies are within its scope. In that case, it will meet in extended formation, joined by representatives from the banking and insurance supervisory authorities as well as members specialized in these areas.¹²¹

The Stakeholders in the Accounting Standard-setting Process

- Government

CNC is a special department of the Ministry of Economy and Finance and is financed by this Ministry. CNC staff is primarily composed of civil servants from this Ministry. Several members of the CNC represent public authorities. For example, one of the Vice-Chairmen is the Director of Public Accounting. The Chairman is appointed by order of the Ministry of Economy. Eleven other members of the CNC, among 58, represent the public sector (ministries, government audit office, market-regulator, etc.). Also, half members of CRC which has power to make regulations , either following proposals from the CNC or as an endorsement(homologation) of IFRS or other ‘internationally recognized standards’, are from the public sector.

- Stock exchange regulator

The Autorité des marchés financiers (AMF) as the French securities regulator, established by the Financial Security Act of 1 August 2003. It was formed from the merger of the Commission des opérations de bourse (COB), the Conseil des marchés financiers (CMF) and the Conseil de discipline de la gestion financière (CDGF). The objective in amalgamating these bodies was to improve the efficiency of France’s financial regulatory system and to give it greater visibility. The AMF is an independent public body with legal personality and financial autonomy. Its remit is to:
--- safeguard investments in financial instruments and in all other savings and

121 <http://www.iasplus.com/resource/feestudy.pdf>

- investment vehicles;
- ensure that investors receive material information;
- maintain orderly financial markets.

The AMF also lends its support to financial market regulation at the European and International levels. The AMF comprises: a Board with 16 members, an Enforcement Committee with 12 members, specialized commissions and consultative commissions and the Finance Minister designates a representative of the Government who has a non-voting seat on all AMF bodies. The Chairman of the AMF is named by decree of the President of the Republic for a non-renewable five-year term.¹²²

The CNC has amongst its members a representative of the AMF. The AMF states that quoted companies should apply the rules published by the CNC. It can influence the preparation of those rules.¹²³

- *Accountancy profession*

Accountancy profession developed later in France than in the UK and the US. The Big-4 firms are well established in France but none of them is of French origin. The French accounting and auditing environment is divided into two separate professions, both of which are government regulated. French law restricts a statutory auditor and a public accountant from working for the same client. The auditing profession is regulated by the Institute of Statutory Auditors (La Compagnie Nationale des Commissaires aux Comptes - CNCC), and the accounting profession by the Order of Chartered Accountants (l'Ordre des Experts-Comptables - OEC). The auditors are supervised by the Ministry of Justice (Garde des Sceaux) and accountants come under the supervision of the Ministry of Economy and Finance.

The Compagnie Nationale des Commissaires aux Comptes under the aegis of the

¹²² http://www.amf-france.org/affiche_page.asp?urlDoc=lesmissionsamf.htm&lang=en&Id_Tab=0

¹²³ <http://www.iasplus.com/resource/feestudy.pdf>

Ministry of Justice was created in 1969.¹²⁴ All statutory auditors must be inscribed on the official list of the CNCC, although the majority of them are also members of the OEC. The CNCC has seen its role greatly enlarged over the years to cover inspection of accounts in all categories of organizations, both profit- and non-profit-generating concerns. Beyond the statutory mission of attesting that the financial statements are a true and fair presentation, the French auditor is also called upon to intervene when companies seek additional capital or to trigger an early warning procedure for companies likely to encounter financial difficulties.

The Ordre des Experts Comptables (OEC) was established in 1942 and reconstituted by the post-war government in 1945. The OEC is divided into eight sectors of professional interest under the aegis of a National Council made up of 66 members, 22 members of which represent the regional councils.¹²⁵ The body has been mandated to represent the French accounting profession in its dealings with the other international accounting bodies, in particular the IASC/IASB (International Accounting Standards Committee). Although growing in size and influence, it is a smaller, weaker and less autonomous body than, say, the ICAEW in the UK and has never been responsible for setting accounting standards.

The two bodies in France co-operate on issues of common professional interest, such as adopting a joint approach to the organization and monitoring of peer reviews, and co-participate in a number of working parties. Both bodies are members of the Fédération des Experts-Comptables Européens (FEE).

The CNCC and the OEC formulate and enforce ethical standards, issue technical standards and recommendations in their respective fields, and oversee the peer reviews to ensure compliance with these standards. They also issue accounting and reporting recommendations, which they encourage their members to apply, and which

¹²⁴ <http://www.accaglobal.com/europe/members/resources/factsheets/france/background>

¹²⁵ <http://www.accaglobal.com/europe/members/resources/factsheets/france/background>

have contributed to the updating and modification of existing regulations.¹²⁶

“As already noted, it participates in the work of the CNC and CRC. It issues opinions on accounting matters.”¹²⁷ For instance, among the six Vice-Chairmen of the CNC are the Chairman of the Conseil Supérieur de l’Ordre des Experts Comptables (OEC) and the Chairman of the Compagnie Nationale des Commissaires aux Comptes (CNCC, French legal auditors' institute). Moreover, among the 40 expert members of the CNC, the institute nominates 4 experts-comptables, and there are 4 commissaires aux comptes nominated by their institute. When comments to exposure-drafts have to be submitted to the IASC/IASB Board, joint-working groups (CNC, CNCC, and CSOEC) may address common answers and comments.¹²⁸

- *Other stakeholders*

Many members of the CNC are representatives of business, of small and medium enterprises, agriculture, insurance companies, social insurance companies, social security institutions, mutual insurance, the banking industry, the co-operative societies, trade unions, qualified experts including two academics. The CNC has also amongst its member's representatives from the banking commission, the insurance commission and the mutual insurance commission.¹²⁹ They participate in the process of accounting standard setting and influence the standards. For instance, the political lobbying is more and more common in the accounting standard setting, especially from banking

¹²⁶ <http://www.accaglobal.com/europe/members/resources/factsheets/france/background>

¹²⁷ Nobes, C., & Parker, R.B. (2008). Comparative International Accounting. P297

¹²⁸ <http://www.iasplus.com/resource/feestudy.pdf>

¹²⁹ <http://www.iasplus.com/resource/feestudy.pdf>

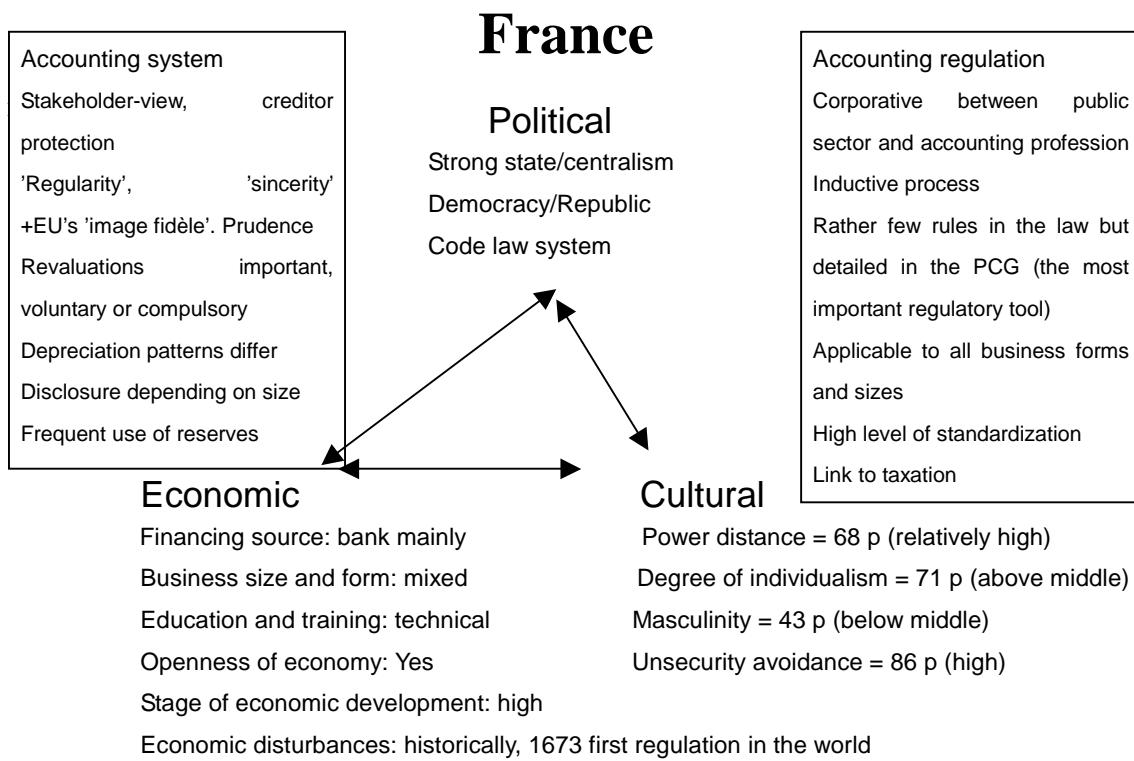


Figure 4.11 the overview of accounting system in France

Source: slide from Kristina Artsberg, International Accounting

Chapter 5 Analysis

After examining the empirical material about Chinese accounting standard setting, we'd like to analyze Chinese accounting policy system by comparing with Japan and France, which have something in common with Chinese situation. Through the analysis, suggestions will be given to Chinese authorities in order to improve the process of accounting standard setting in the end.

5.1 Analysis of Chinese accounting standard setting system

China has established a complete accounting system, which includes different of authorities to set, enforce and supervise standards. From the introduction of their functions in the previous chapter, we noticed that there are overlaps of these functions. For example, both Accounting Department of Ministry of Finance and CICPA are in charge of the examination of CPA; both Accounting Department of Ministry of Finance and CSRC are responsible for the enforcement of ASBE; Accounting Department of Ministry of Finance, CICPA and ASC are all aimed at promoting the training programs of professionals. From the relationships among different authorities, we can find out that the Accounting Department of Ministry of Finance is in charge of standard setting, enforcement and supervision, it is a highly centralized governmental organization. Thus, government takes the key roles in this system. In fact, Accounting Department, CASC and CSRC, which control the standard-setting, enforcement and supervision of accounting, are the state organs. CICPA and ASC as the most influence accounting professional institutions are not independent private sectors like their counterparts in the US and the UK. Instead, government embeds into these two institutions deeply. Except for Accounting Department and CASC, other three authorities and stakeholders participate into and influence the process of standard-setting indirectly through their representatives in CASC. All these organizations are subordinates of the government.

All these phenomena in China accounting system show that the accounting regulatory mode adopted by China is ‘Legalism’ according to Puxty’s theory or we can say that China adopts the public-sector mode in its accounting system.

In chapter 4, we have introduced the causes that influencing Chinese accounting standard setting. To be specific, the providers of finance are mainly government and banks. The need for disclosure of financial information is smaller than the developed countries like UK and US. The code law legal system enables the accounting law become part of the national law which is mandated for the participants in the market. The high power distance index, low individualism index and uncertainty avoidance index are the main characteristics of its cultural aspect. As to the profession part, the power and influence of accounting professions are relatively weak. All these environmental causes enable the government to take the initiatives in the accounting standard setting. And the government is the most capable one that can take the responsibilities of accounting standard setting in China. Since the professionals are not powerful and independent enough to set accounting standards, the private sector may not be realistic for the current Chinese situation. However, since the process of international accounting convergence, we can participate that the role of government as standard setter will be diminished.

5.2 Comparative study with Japan

We’ll first make a comparison between Japanese and Chinese accounting standard setting. Japan, as one of the developed countries in Asia, is quite close to China in terms of culture and geography. As we can see from JICPA’s website, the process of setting accounting standards, previously driven by the Ministry of Finance, has been gradually changing. In 2001, FASF and ASBJ have been set up in order to transfer rule-making in accounting from the public sector to the private sector.

5.2.1 Differences and similarities

The regulatory mode

Obviously, the modes of accounting standard setting between Japan and China are different. The standard setter in Japan is private sector while it is public sector in China. However, the public sector was responsible for the accounting standards setting before 2001 in Japan.

Authorities

- Government

It is the Ministry of Finance in China who set the accounting standards; however it is the ASBJ, a private sector who set the accounting standards in Japan. Now the Ministry of Finance of Japan gave the principal rights of accounting standard setting to ASBJ. It is just like the case in the US that FASB is responsible for the accounting standards setting while SEC still has the final word. In a word, we can see that the government intervention in the process of accounting standards setting becomes less and less in Japan. However, the Ministry of Finance in China play a dominate role in the process of accounting standards setting.

- Securities and Exchanges Regulatory Commission

The securities and exchange regulatory body in China is CSRC. CSRC, as the administrator of stock market is another important enforcer and supervisor of accounting standards except for Accounting Department of Ministry of Finance. It executes its power by regulating and examining the financial reports of listed companies. Also, it has the right to punish the listed companies which violate ASBE in their interim or annual reports.

The securities and exchange regulatory body in Japan is SESC. SESC has the oversight function; also, it has the right to submit policy proposals after the SESC comprehensively analyzes the results of inspections and investigations. As we can see, SESC is more actively involved into the standard setting process than CSRC.

- Profession

In this part, we will mainly focus on JICPA and CICPA as the most important profession in these two countries. There is one director (1/15) in FASF coming from JICPA, and one board member (1/13)¹³⁰ in ASBJ coming from JICPA as well. As a result we can say that the JICPA does have influence in the process of accounting standards setting. However, JICPA is not the driving force that leads Japan transfer from public sector to private sector. The main reason for Japan's transfer is to restore investors' confidence and be in line with international norms.

When it comes to China, we can also find profession representatives involved in the accounting standards setting process, however, most of them are not independent enough since they are the staff both in CICPA and government. What both countries have in common is that both CICPA and JICPA are responsible for the standard-setting of auditing in both countries. Comparing with Japan, CICPA has less influence in the process of standard setting.

- *Other stakeholders*

As we can see from the composition of Japanese standard setter, there're various stakeholders involved in the process of standard setting, from listed companies, banks and security exchanges, to accountant firms, scholars, and JICPAs. There's a wide range of stakeholders who can represent different kind of interests. As we can see from the composition of the FASF, the president is from listed company, and there're 5 directors (5/15) also from listed companies. In addition, there're 6 listed companies representatives (6/13)¹³¹ in the board members of ASBJ as well. It is a relatively high degree of representative and they are actively involved in the process of accounting standards setting.

However, when we examine the composition of Chinese standard setter, we found that the government plays a dominate role although there're other stakeholders involved in.

130 <http://www.asb.or.jp>

131 <http://www.asb.or.jp>

Comparing to Japan, there is few listed companies take part in the process of accounting standards setting in China.

5.2.2 Causes that influence Japanese accounting standard setting

Economic factor

It is believed that Japanese corporations depend on the commercial banks as their providers of finance in the past. However, the environment that corporations faced has been changed a lot since 1990. The banks were heavily influenced by the huge amount of bad debts in 1990s. The financial support corporations can get from banks became smaller and smaller. As a result, the corporations especially the big ones tend to finance through the capital market. There're two major features of Japanese capital market in end of 1990s. One is that the institutional investors became the main force of capital market. And the other is that source of finance changed from the banks to the capital market gradually. These two factors forced Japan to have a high quality global accounting standards which can protect the investors' interest. In other words, the core competency of a company became that whether they can provide fair, unbiased financial information that directly affects the decision-making of investors. The change of provider of finance is one of the reasons that force Japan to accept a private sector to set accounting standards.

China is now in a period of social transition, more and more corporations especially the big ones tend to finance through the capital market. The institutional investors are on the rise as well. But the dominate roles that government and banks play are still not changed completely. As a result, the users of financial statements were mainly government in the past, and now more and more investors are becoming the users gradually. Thus we can say that it is of the primary importance to protect investor's interest in Japan, whose capital market is more developed than China.

Legal system

Both Japan and China adopt the same legal system, the civil law system. There're

three sources of regulations in Japan. They are the Commercial Code, Securities and Exchange Law and the tax law and rules. The legal system determined that public sector was chosen as the standard setter at first in Japan. And because of other reasons, the public sector is replaced by private sector later.

Culture

Both Japan and China are influenced by Confucian-inspired culture. Besides, both countries has relatively low index of individualism, especially China. And the uncertainty avoidance index in Japan is much higher than in China. This may lead Japanese accounting standards tend to be more prudent, more precise and detailed.

Profession

JICPA is more independent and powerful than CICPA. JICPA is a self- disciplinary association, whose funding is coming from the members, while CICPA is a nominal independent organization, whose funding is mainly coming from the government. As we mentioned earlier that there's one board member in ASBJ and one director in FASF are coming from JICPA.

Others

Convergence

In January 2005, ASBJ announced the launch of a joint project with the International Accounting Standards Board ("IASB") aimed at achieving convergence between Japanese GAAP and International Financial Reporting Standards ("IFRS").

In August 2007, the ASBJ and the IASB jointly announced an agreement (known as the Tokyo Agreement) to accelerate convergence between Japanese GAAP and IFRS, a process that was started in March 2005. As part of the agreement, the two boards will seek to eliminate by 2008 major differences between Japanese GAAP and IFRS (as defined by the July 2005 CESR assessment of equivalence), with the remaining differences being removed on or before 30 June 2011. Whilst the target date of 2011

does not apply to any major new IFRS now being developed, that will become effective after 2011, both boards will work closely to ensure the acceptance of the international approach in Japan when new standards become effective.¹³²

It is easy to find out that Japan is more successful than China in the progress of convergence. And Japan began to convergence earlier than China, thus there's still a long way to go for China to achieve convergence successfully.

And when we looking back, there're two other reasons that force Japan to adopt a high quality standard and convergence with the IFRS. The first one was that the economic bubble burst in 1990s in Japan. The bad debt increased dramatically due to the downfall of price of land. In order to help the banks from trouble and get trust from the global society, the Big Bang accounting reform which aims at improve the quality of financial information began to be carried out. Along with the financial crisis in Asia in 1997, to establish a global accepted accounting standard became more and more important for Japan.

And the second reason was the restructure of IASC. In 1999, IASC elected seven people to form the nomination committee. Unfortunately Japan was excluded from the nomination committee because of their accounting system. IASC only accepts the countries in which the private sectors are in charge of accounting standard setting. So this was another driver that forces Japan to set up an independent accounting standard setting organization.

These reasons mentioned above made Japanese authorities realized that the old public mode system was no longer capable to dealing with the existing problem in Japan. There's an urgent need to establish the private mode system.

¹³² <http://www.asb.or.jp>

5.3 Comparative study with France

After the comparison between Japan and China, we will analyze the accounting system of France which also adopt public sector as its accounting regulatory mode. Previously, we have introduced the accounting rule-making of France briefly, now we will compare the differences and similarities between France and China and try to find the causes. Eventually, we will give our suggestion on what China can learn from the experience of France.

From the introduction of French accounting standard setting and the roles of different stakeholders, we can conclude that government plays the key role in the process of standard setting compared with other interest groups. CNC is a special department of the Ministry of Economy and Finance and is financed by this Ministry. And public sectors have major representatives in CNC and CRC. France is a typical country which adopts public sector regulatory mode in accounting.

5.3.1 Similarities and Differences

We will compare France with China in the next part. Through analyzing the similarities and differences between them, we will find the weaknesses existed in the accounting system of China.

Accounting regulatory mode

As we mentioned before, both France and China adopt the public sector mode among the three accounting regulatory mode. This is also the most important reason that we choose France to be one case of our comparative studies. The most obvious characteristics of this mode are that the state has been a major influence on accounting system. By using this model, it can ensure the authority of the accounting standards, guarantee the comparability of accounting information and facilitate the macroeconomic control, especially on tax policy etc.

Comparison of different stakeholders

- *Government*

Although government is the major role in the accounting system, the extent of intervening of the state is different. In China, the main participants in standard setting are the Accounting Department of Ministry of Finance which is the standard setter, and CASC as a subdivision of Accounting Department which plays the consultancy role and has representatives from different stakeholders. Accounting standards are set by Accounting Department, approved and issued by Ministry of Finance. In France, there are also two main roles which are CNC and CRC in rule making. CNC drafts the standards and gets approval from CRC and become regulations. Although, the state has great influence in standard setting, both CNC and CRC are mixed public-private sector body. Compared with France, Chinese government is more powerful in the process of standard setting. And France's standard setter has broader representativeness than China.

- *Stock exchange regulator*

CSRC is the regulator of China stock market which has responsibilities on enforcement and oversight of the accounting standards and under the control of the State Council. CSRC has representatives in CASC so that they can influence the process of accounting standards setting indirectly. The AMF is the counterpart in France which is an independent public sector on both financial and management. The AMF reports annually to the President of France and to Parliament.¹³³ AMF also has representatives in both CRC and CNC, and involves into the standards setting process directly.

- *Professional accountancy*

CICPA is the professional accountancy body under the control of Ministry of Finance of China and its counterpart in France is the OEC supervised by the Ministry of Economy and Finance. However, in France, there is also CNCC which is the Institute

¹³³ http://www.amf-france.org/affiche_page.asp?urlidoc=lesmissionsamf.htm&lang=en&Id_Tab=0

of Statutory Auditors monitored by the Ministry of Justice. CNCC and OEC issue and enforce the ethical standards and their respective technical standards. While in China CICPA is in charge of the ethical standards as well as the auditing standards. CNCC and OEC take part in the accounting standard setting through the representatives in CNC and CRC. Comparing with the case in France, CICPA has limited influence on the accounting standards setting in China.

- *Other stakeholders*

CASC is the main channel for other stakeholders to participate in the accounting standard setting process of China, however; CASC is only a consultancy role for Accounting Department, and thus it has limited influence to the standard setting process. To be specific the interests of other stakeholders cannot be represented broadly. The situation would be better in France since there are different representatives from different interest group participated into the standard setting directly.

Accounting standards

The PCG is the most distinctive part of French accounting regulation compared with other countries. It is not merely a chart or classified list of ledger accounts but a very detailed manual on financial accounting. Included within it are definitions of accounting terms, valuation and measurement rules, and model financial statements. Many accounting textbooks are based on it. All French accountants have been trained to use it, for recording accounting transactions, for preparing financial statements and for filling in tax returns. However, in the latest version of PCG in 1999, cost and management accounting and consolidated financial statements had been excluded. For the consolidated financial statements of all listed companies in EU, IFRS has been adopted since 2005. China has implemented its international convergence plan cooperated with IASB and adopted the new ASBE which are similar with IFRS in many aspects from 2007.

5.3.2 Causes that influence French accounting standard setting

The following part will discuss the reasons why there are similarities and differences existed between France and China. We will analyze from different aspects such as economic, legal, political, culture etc.

Economic factor

France is arguably the most centralized country in Europe. France adopts planned market economy and has a high developed capital market. The state puts much emphasis on national economic planning, macroeconomic control and social welfare. The socialization on economy and centralization on decision-making in France are pretty high. Therefore, the state inevitably plays the important role in accounting standard setting in order to realize the government functions in economic management. Besides, in France, bank is a significant finance source for small family-owned business. As the Zysman's (1983) classification by financial system, France adopts the credit-based government systems. In these 'credit' countries, usually, banks or the state will nominate directors of public companies and thus be able to obtain information and affect decisions. Thus, the need for published information is not so strong. And the purpose of finance reporting is to protect creditors and government which is the tax collectors or controllers of economy. This leads that precision; uniformity and stability are more significant than flexibility, judgment, fairness. It also seems likely that the greater important of creditors in these countries leads to more careful (prudent, conservative) accounting. China has high similarities with France in the aspects mentioned above. High percentages of listed companies are state-owned or controlled by the state. Bank and government are the main capital source of public companies. High centralism and focusing on macroeconomic control are the characteristics of Chinese economic environment. The common ground between China and France determined that the government has great influence on standard setting.

Legal system

French is a typical country using codified Roman law in its legal system. Rules for accounting and financial reporting are usually established by company law or commercial codes. Centralization and a desire to control the economy result in the existence of an accounting plan (PCG). The characteristics of the accounting regulation in code law system are coerciveness and unitarily. China is also a code law country. And accounting standard is one type of administrative regulations which are set up by government. The same legal system of the two countries strengthens the influence of the state in accounting standard setting.

Culture

France, as a western developed capitalist country, and China, as an eastern developing socialist country, has lots of differences in politics, economy and ideology. According to the study figures of Hofstede (1984), we can discover that France has relatively high figures in power distance, insecurity avoidance and degree of individualism while China has larger power distance, lower degree of individualism and insecurity avoidance than France. The value systems or attitudes of accountants may be expected to be related to and derived from societal values with special reference to work related values. Accounting ‘values’ will in turn impact on accounting systems. This culture characteristics may be explained the predominant role of French government and the detailed accounting rules in PCG of France. The large power distance and high degree of collectivism in China enable the state dominate the process of standard setting.

Profession

The strength, size and competence of the accountancy profession in both countries are relatively weak. The main purpose of the accounting standard is to protect the interests of creditors and realize the economic targets of government. The lack of a substantial body of private shareholders and public companies means that the need for auditors is much smaller. This causes the small influence of professional organizations in the process of standard setting. In France, OEC and CNCC as two major professional organizations are growing both in size and influence, however, like their

counterpart in China-CICPA, they are under the supervision of government and not independent enough.

Others (convergence)

After 1983, since the impact of external factors- for example, EU harmonization program on the company law and the impact of increasingly global capital markets dominated by Anglo-Saxon countries, especially by the US, the influence of the state has been weakened. With the process of globalization, deregulation and privatization, French method was put severely to the test, accounting institutions were reconstruction, the power of accountancy profession was strengthened, and IFRS became a strong competitor to national standards.

EU decided to adopt IFRS for the consolidated accounts of all listed companies from 2005. And the member states still have the right to choose national regulations for unconsolidated accounts. In France, “the CNC and the CRC have decided officially not to extend permission to use IFRS to the financial statements of individual companies. However, in practice they are doing so progressively and partially in another way: by converging French rules with IFRS on certain topics.”¹³⁴

134 Nobes, C., & Parker, R.B. (2008). Comparative International Accounting. P317

Chapter 6 Conclusion

In this thesis, we focus on the current accounting standards setting system in China. Comparing with the previous research on the same subject, we made a comparative analysis with Japan and France and provide our suggestions about the improvement of accounting standard setting to the authorities. We first analyzed the accounting standards setting process, and then we introduced different authorities involved in the process and discussed their influences. We find out that China is a country that adopts public sector as the standard setter. To be specific, the state plays the standards setting, enforcement and supervisory roles. Also, it has established a complete accounting standard setting system; however, the function overlap among authorities will affect the efficiency on enforcement and supervision. The relatively high centralized state power will also influence the fairness of accounting standard setting.

By examining the factors that influenced the accounting system, such as the provider of finance, legal system, taxation, culture and profession, we discovered the public sector mode is the most suitable for Chinese national condition. However, as a rapid developing capital market, we think there's much room for China to improve to stabilize the market through the comparative studies with Japan and France.

By analyzing the accounting standards setting situations both in Japan and France, we found that they have more successful experiences in standards setting and convergence than China. Based on the national condition of China, we propose the following suggestion to Chinese authorities in order to improve the accounting standard quality.

The accounting standards setting system should both stands for the government and other stakeholder, especially the listed companies.

The independent private sector are now in charge of the accounting standards setting in Japan, thus more and more stakeholders can take part in the standards setting process directly through their representatives in the ASBJ and FASF. Although the government still plays a dominate role in the accounting standards setting in France, other stakeholders can also exercise their right in the process of standards setting. Both France and China are adopting the public sector mode, but Chinese standard setter is less autonomous than France. The Accounting Department is a subordinate of Ministry of Finance of China, and the CASC, as an advisory organization, which is supposed to represent different stakeholders is influence by the government too much. Listed companies, as one of the most important users of accounting standards, seldom participate in the standard setting process due to the cultural and political reasons. So we suggest that more stakeholders especially the company representatives should be involved in the standard setting process. As a socialist society, the representatives from trade union are also welcomed since they can express their opinions from the employee's standpoint. As the development of the capital market, institutional investors, as an increasing group, should be noticed and their interest should also be protected in the standard setting process.

The disclosures related to accounting standards setting should available by public and the due process should be more transparent.

Both Japan and France are emphasizing the importance of disclosure; they also solicit opinions from a wide range of stakeholders. Although there's a soliciting opinion stage in the standards setting process, it is the Ministry of Finance who makes the final decision. So we suggest adopting the voting procedure in order to enhance fairness. In addition, the decision-making process should be more transparent to public.

The competence of professions should be improved.

From the statistics we got from the authorities, the accounting practitioners are relative weak in China. ASBE can be a challenge for accountants since it asks for

more professional judgment, so the education and training should be updated. The PCG in France is a good example that we can learn from since it provides advices and solutions to accountants as well as students. When the competence of professions has been improved, they can participate in the standards setting process more actively, as a result, the quality of Chinese accounting standards can be improved.

China should make more progress on global convergence and cooperation.

Both Japan and France have made great effort in Global convergence, which will also force China to set up a high quality and widely accepted standard. In order to enforce the standards satisfactorily, a sound mechanism should be established. As a result, global convergence can accelerate the reform of Chinese accounting system. China has been making a lot of efforts on global convergence, and cooperating actively with other countries. The adoption of the new revised ASBE is a big step forward on international convergence. Also, there's a lot of cooperation taking place globally, for instance, the recent Asian-Oceanian Standards Setters Group Meeting, China should grasp these opportunities to learn more from other countries.

Finally in this part, we'd like to reclaim our questions raised in the beginning of this thesis:

- What kind of system does Chinese accounting standard setting have;
- What is the most appropriate accounting standard setting system for Chinese national conditions;
- What China can learn from other countries like Japan and France to improve its accounting standard setting system?

Through all our analysis above, we found that China is a country that adopts public sector as the standard setter. To be specific, the state plays the standards setting, enforcement and supervisory roles. Also, it has established a complete accounting standard setting system; however, the function overlap among authorities will affect the efficiency on enforcement and supervision. The relatively high centralized state

power will also influence the fairness of accounting standard setting. As far as we concerned, the current accounting standard setting system is the most appropriate one for Chinese national conditions although there's still much room for improvements. The weakness of professionals and the highly centralism on policy-making are the factors that make the private sector mode and public-private mode unsuitable for China. In addition, we have proposed the following suggestions which China can learn from Japanese and French experiences:

- The accounting standards setting system should both stands for the government and other stakeholder, especially the listed companies.
- The disclosures related to accounting standards setting should available by public and the due process should be more transparent.
- The competence of professions should be improved.
- China should make more progress on global convergence and cooperation.

So far, we have given solutions for each question proposed in the beginning of this thesis.

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Appendix

Interview Explanation

Interview questions for different authorities	
Questions for Accounting department and CASC	<ol style="list-style-type: none"> Who are the standard setter, enforcer and supervisor of the new ASBE? How much the influence of CASC is in the standard setting process? If CASC only plays as a consultant to Accounting Department of Ministry of Finance? According to the official website, Accounting Department of Ministry of Finance and CSRC are both the supervisor of implement of ASBE. Is there any difference? If the listed companies want to take part in the process of standard setting. How can they do?
Questions for CICPA	<ol style="list-style-type: none"> What is the role of CICPA in the standard setting process? Who is the standard setter for auditing standards? What is the relationship between CICPA and Ministry of Finance? Is it an independent professional association as the statement of official website?
Questions for ASC	<ol style="list-style-type: none"> Who are the standard setter, enforcer and supervisor of the new ASBE? How much the influence of CASC is in the standard setting process? If CASC only play as a consultant to Accounting Department of Ministry of Finance? According to the official website, Accounting Department of Ministry of Finance and CSRC are both the supervisor of implement of ASBE. Is there any difference? If the listed companies want to take part in the process of standard setting. How can they do? What is the role of ASC in the standard setting process? What is the relationship between ASC and Ministry of Finance?
Questions for CSRC	<ol style="list-style-type: none"> What is the role of CSRC in the standard setting process? Is CSRC in charge of the enforcement of new ASBE for listed companies? What is the difference between the function of CSRC and Ministry of Finance on supervision? What is the relationship between CSRC and Ministry of Finance? Is it independent from Ministry of Finance? If the listed companies want to take part in the process of standard setting. How can they do?