

Research on the Application of Fair Value in the Chinese Market

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Abstract: With the rapid development of the world economy, the role of fair value is becoming more and more important. The Ministry of Finance of the People's Republic of China has promulgated relevant accounting standards since 2006, and the re-introduction of fair value is particularly eye-catching. This shows that fair value has been continuously used in China, and the relevant accounting standards and accounting systems have been continuously supplemented and improved since then. This move raises the importance of fair value even further. Using the literature analysis method, this paper will deeply explore the impact of fair value on the Chinese market from multiple perspectives such as Chinese and international research and application value. This paper finds that there are some problems in China's economic market, such as the unclear definition of the concept of fair value, the imperfection of market conditions, and the inadequacy of supervision and restraint mechanisms. Finally, in view of the problems existing in the application of fair value in China's economic market, this paper proposes to implement unified and clear measurement standards, improve the market mechanism of fair value measurement, and strengthen the supervision of the market and enterprises.

Keywords: Fair value, Accounting standard, Chinese market

1. Introduction

In recent years, developed countries in the world have continued to take fair value as the primary measurement attribute in accounting standards, and continue to promote and apply it. In 2006, China first introduced the concept of fair value as the basis for accounting measurement to improve the financial management of small and medium-sized enterprises. Subsequently, relevant standards were proposed, which made the principle of fair value measurement widely used by companies in various industries. The formulation and application of fair value standards indicate the continuous improvement of China's accounting standards, and China's accounting standards are gradually moving towards standardization. Although China's accounting standards have continuously improved and developed the measurement attributes of fair value, due to the imperfect economic environment in China, there are some loopholes, the regulatory authorities are not effective, and enterprises abuse fair value and other problems are common, so that fair value is facing many challenges in practical application. Therefore, this paper will study a series of problems that still exist in the practical application of fair value based on the current situation in China.

How to define fair value has always been a hot topic in the academic community, and it is also the basis and key to in-depth research in other fields. Therefore, the research status of fair value will be the main point of discussion in this paper, and then the problems faced in its application in the Chinese market will be discussed, and corresponding suggestions will be put forward.

This paper will deeply discuss the impact of fair value measurement attributes on the market from multiple perspectives such as the research status, application value, and application fields of fair value, and analyze the unclear definition of the concept of fair value, the incomplete market conditions, and the lack of supervision and restraint mechanism, and finally propose effective solutions to achieve better market results.

At the same time, how to apply fair value to practice is one of the most concerned issues in the field of accounting in China and the international accounting field. The study of the practical application of fair value is of great significance to the accounting industry, and through the study and discussion of fair value, we can explore the future development direction of the accounting field, which is conducive to the construction of new accounting standards and systems, and the improvement of accounting theory.

The research and discussion of fair value-related issues in this paper can contribute to the improvement of China's accounting system, and at the same time, it is expected to provide some materials for the study of fair value in China.

2. The Current State of Research on Fair Value

The application of fair value in international accounting standards can be traced back to the discussion of the accounting treatment of financial instruments by the International Accounting Standards Committee (IASC) in 1988, and then in the nineties of the twentieth century, fair value and the economic condition of enterprises became a hot topic in the international accounting industry. With the advent of the 21st century, the Federal Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) have each developed relevant standards, 50 of which focus on fair prices. Clearly, the global community is taking fair value more seriously than previously recognized, and it is seen as an innovative concept.

In addition, there are still many debates on fair value in the international community, which mainly focus on the following two aspects: the study of whether fair value is reliable and the study of whether fair value is relevant.

Benton has been a strong critic of the "fair value measurement standards" in the US financial standards report[1]. He noted that while the FASB considers fair value to be the exit price, it also combines it with the in-use value and the entry price to assess the financial position of the business combination at the time of the business combination. Benston reasoned that fair value was highly manipulable and therefore not reliable.

However, Martin and Osma found that it is an effective measure of the fair value of non-derivative financial instruments and derivative financial instruments by citing the hybrid measurement model proposed by the IASB and FASB, and that this model is more robust when cash flows are consistent with the market discount rate [2].

Fiechter uses more than 100 banks as a research sample to study whether fair value is correlated. The results show that banks that adopt fair value have much lower variations in earnings than those that adopt the traditional method[3]. Therefore, using a reasonable fair value is an effective way to reduce financial risk and avoid financial chaos.

Hann conducted an in-depth study of two different pension accounting methods, the fair value and smoothing model, and showed that even with the fair value approach, equity investors' returns did not significantly improve their return on investment to the firm, nor did they improve their return on

investment to creditors. In the income statement, fair value also weakens the relevance of a company's creditworthiness to its financial statements[4].

There are two aspects of the study of fair value measurement in China, one is the study of the basic theory of fair value, and the other is the application of fair value measurement.

The research on the basic theory of fair value mainly focuses on two aspects, the first is the relationship between fair value and other measurement attributes, and the second is the measurement method of fair value.

At present, there are a variety of different views on the definition of fair value, which mainly include the following three views: the first view advocates that fair value is opposed to historical cost; The second view is that fair value includes all accounting measurement attributes; A third view is that fair value is another measurement attribute.

According to Jiang Xinchun, the measurement method of fair value can be divided into the traditional method and the expected cash flow method [5]. There are four main aspects of the application research on fair value measurement: the advantages of fair value measurement; Feasibility of fair value measurement; Use of fair value; Deficiencies in fair value measurement.

3. Problems Faced in the Application of Fair Value in China

3.1. Ambiguity in the Definition of the Concept of Fair Value

Compared with the definition of fair value in the US Federal Financial Accounting Standards Board (FASB), China is less extensive in classifying fair value, and although the content of fair value is included in the basic standard, it does not clearly indicate the measurement date, exchange characteristics and exchange objectives. In addition, the standard does not put forward the premise of fair value measurement, and there is a lack of systematic description of the theoretical elaboration and specific application of fair value. At the same time, Xu Peihong pointed out that fair value information is uncertain and variable, so it is quite difficult to apply it in practice [6]. Moreover, it is difficult to form a consistent and stable model of the fair value evaluation standard, so the fair value can only be used as an abstract standard. If no clear criteria for recognition are adopted, the authenticity of financial information will be compromised. Therefore, more in-depth research is needed to establish a more comprehensive, scientific and operational standard system.

3.2. Imperfect Market Economic Environment

According to the definition of fair value, it is necessary to determine fair value in an environment of full and fair competition. However, because China's current market economy system is not yet perfect, large state-owned enterprises (SOEs) and related interest groups may have complex related-party transactions, and they may use non-market competition to manipulate profits. Fair value is determined when market price activity is traded, and when market price is not active enough or insufficient to meet demand, accounting needs to estimate the value of similar liabilities based on their market value, such as using the present value valuation method. Jiang Xinchun pointed out that fair value measurement lacks good operability, which is easy to bring certain difficulties to financial work. This is because the parties to a transaction usually determine the market value through fair value. However, due to the changing market environment, most of the accounting transactions are difficult to find and can only be estimated empirically. If accountants' professional ethics do not meet the desired standards, they risk being abused to manipulate fair value determinations, resulting in serious impartiality being compromised. In order to promote the development of China's market economy, China should accelerate changes and build a dynamic, fluid, perfect, fair and sufficient environment.

3.3. Lack of Supervision and Restraint Mechanism

There are still deficiencies in China's accounting regulations. This is reflected in the fact that the ability to supervise and punish is not strong enough, and the civil compensation mechanism has not yet been perfected. Due to the fierce competition among accounting firms, the subjective consciousness of fair value is abused for their own benefit, thus hindering the effective application of fair value. This situation leads to the manipulation of accounting information, which prevents accounting firms from fulfilling their due role of economic supervision. In addition, there are many deficiencies in China's accounting profession, such as the low starting point of practitioners, weak foundation, aging age structure, and the intervention of some local governments and subjective departments of enterprises, which have seriously affected the development of the accounting profession.

In addition, there are still many challenges to the internal management system of enterprises. Many controlling parties deceive and damage the rights and interests of small and medium-sized investors through related-party transactions. And, due to the lack of adequate supervisory bodies, the authenticity of financial reports cannot be guaranteed in many cases.

4. Countermeasures and Suggestions on the Use of Fair Value in China

4.1. Implementation of Uniform and Clear Measurement Guidelines

To establish a clear theoretical system of fair value in China, it is necessary to start from two levels: defining the basic principles of fair value and formulating appropriate measurement standards. Unlike the global standard, China still needs to improve its exploration of the authenticity of fair value. Therefore, when conducting theoretical research on fair value, it is necessary to deeply explore the authenticity of fair value based on the global fair value standard and combined with practical experience. At the same time, in order to better assess the financial status of the enterprise, it is necessary to comply with relevant laws and regulations. In addition, Shen Kun argues that accelerating the implementation of the fair value measurement management model in China can more accurately assess the financial and operational performance of enterprises, and will help to achieve accounting uniformity [7]. It can be seen that the Chinese market can better realize the effective use of fair value and obtain more guidance and advice through more precise operational guidelines. In addition, the establishment of a systematic fair value guidance system can not only prevent duplication of accounting standards, but also prevent contradictions.

4.2. Improvement of the Market Mechanism for Fair Value Measurement

With the deepening of the reform of China's socialist market economy system, the optimization of the modern market social order, the increasing transparency of the financial capital trading market, the improvement of the company's service quality, and the improvement of the application conditions of the present value evaluation technology, how to fully and objectively evaluate the development of the socialist market requires the formulation and implementation of the company's standards to be matched with the construction of the modern market, and the application of fair value in the company's standards is consistent with the construction of the modern market. Therefore, in order to better realize fair value, China must establish and improve a system adapted to the market economy, so that accountants can easily obtain the specific measurement attributes required according to the definition of fair value, so as to better realize the benefit assessment and management of property or debt. In this way, an external environment conducive to the widespread dissemination of fair values is created. At the same time, Wang Lejin pointed out that in the context of today's globalization, the

implementation of fair trade and speculation will bring higher returns to enterprises, thereby promoting the sustainable growth of the global economy [8].

4.3. Strengthen the Supervision of the Market and Enterprises

In order to ensure the fairness of corporate behavior, government agencies must further strengthen their control over the trading market, improve the regulatory mechanism, and strictly regulate the economic behavior of companies to avoid unfair trading and manipulation of profits. To this end, the following measures can be taken: (1) actively promote the reform of equity division, and (2) increase the monitoring of the quality of financial and internal audit data and information to ensure equal, rational and orderly operation of the market economy.

At the same time, the disclosure of fair information should be increased, and all fair interest analysis methods should be required to disclose the benefits of property and liabilities and the benefits they bring. At the same time, in order to prevent the adverse effects of accounting fraud, regulators should refer to foreign punitive compensation systems and increase the punishment of accounting fraud to ensure fair, just and effective supervision.

5. Conclusion

This paper mainly discusses the research status of fair value in today's society, as well as the problems existing in the application of fair value in the Chinese market and related suggestions. It is found that when applying fair value measurement in the Chinese market, it is necessary to implement a unified and clear standard system, improve the construction of the economic market, and strengthen the supervision of the market and enterprises. In addition, the reliability and appropriateness of fair value measurement have not been explored in depth in this paper.

At present, the future development of fair value research in China is facing many challenges. With the development of social economy, there is a close relationship between fair value and other measurement attributes, and it has a stronger correlation compared with other measurement attributes. With the continuous development of the economy, the application of fair value will also improve with the improvement of the economic system and legal system. China should actively promote the fair value measurement method, and at the same time, it should also develop cautiously in light of the actual situation of economic development.

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