

China Accounting Alert

May 2021

This edition of *China Accounting Alert* provides news and updates about IFRS, financial reporting in Mainland China and EY publications.

IASB news and updates

► IASB Update for April 2021

The [April 2021](#) issue of the *IASB Update* contains the IASB staff summary of the IASB meeting held remotely from 27 to 28 April 2021 when the board discussed:

- Dynamic Risk Management
- Financial Instruments with Characteristics of Equity
- Goodwill and Impairment
- Primary Financial Statements
- Maintenance and consistent application

► IFRIC Update for April 2021

At its April 2021 meeting, the IFRS Interpretations Committee (IFRIC) discussed:

- IAS 19 *Employee Benefits* - Attributing Benefit to Periods of Service
- IAS 1 *Presentation of Financial Statements* - Classification of Debt with Covenants as Current or Non-current
- IFRS 9 *Financial Instruments* - Hedging Variability in Cash Flows due to Real Interest Rates

The [April 2021](#) issue of the *IFRIC Update* summarizes what you need to know about these and other issues discussed at the IFRIC's April 2021 meeting.

Mainland news and updates

- ▶ **MOF and CSRC jointly issue Circular on the Application of the Corporate Internal Control Standards System by Listed Companies on the Original SME Board**

On 5 February 2021, the China Securities Regulatory Commission (CSRC) officially approved the merger of the Main Board and the SME Board of the Shenzhen Stock Exchange (SZSE). Following the approval, the Ministry of Finance (MOF) and the CSRC jointly issued the [Circular on the Application of the Corporate Internal Control Standards System by Listed Companies on the Original SME Board following the Merger of the Main Board and the SME Board of the Shenzhen Stock Exchange](#) (Cai Kuai [2021] No.3) (the "Circular"). According to the Circular, for the purpose of steadily promoting the effective application of the corporate internal control standards system in the capital market, companies listed on the original SME Board shall fully implement the corporate internal control standards system following the merger of the Main Board and the SME Board of the SZSE. More specifically:

Companies listed on the original SME Board shall fully implement the corporate internal control standards system from 1 January 2022. Their 2022 annual financial reports shall be disclosed together with the internal control evaluation reports and audit reports on internal control over financial reporting.

The transition period is from the issuance of the Circular on 19 March 2021 to 31 December 2021. During the transition period, companies listed on the original SME Board shall disclose information on internal control in accordance with SZSE requirements. Companies listed on the original SME Board are encouraged to voluntarily early implement the disclosure requirements in the corporate internal control standards system.

- ▶ **The Accounting Regulatory Department of the MOF releases the first batch of Application Examples of the Share-based Payment Standard**

The Accounting Regulatory Department of the MOF has recently released the first batch of [Application Examples of the Share-based Payment Standard](#), which cover the following five aspects:

- ▶ Whether the shares granted to the controlling shareholder constitute a new share-based payment
- ▶ Determination of the grant date
- ▶ Grant of restricted shares
- ▶ Stock incentive schemes with substantial shareholders providing a safety net
- ▶ Vesting subject to a successful IPO

For further details about these application examples, please refer to EY WeChat: [Accounting Alert - the Ministry of Finance Released Application Examples of the Share-based Payment Standard](#).

▶ **The Accounting Regulatory Department of the MOF releases the Second Volume of Q&As on Implementing Accounting Standards for Business Enterprises in 2021**

Recently, the Accounting Regulatory Department of the MOF has released the [Second Volume of Q&As on Implementing Accounting Standards for Business Enterprises in 2021](#), which include 12 Q&As, covering:

Financial instruments (8 Q&As)

- ▶ When an associate (or joint venture) or its investor is an insurance company which defers the implementation of the new financial instrument standards (CAS 22, CAS 23, CAS 24 and CAS 37), whether a uniform accounting policy should be in place in applying the equity method
- ▶ The effect of sales of financial assets on the judgement of the business model for managing the financial assets
- ▶ Accounting for accumulated other comprehensive income when available-for-sale financial assets are classified as financial assets at fair value through profit or loss as at the effective date of the new financial instrument recognition and measurement standard
- ▶ Accounting for recoveries of loans write off for banks
- ▶ Whether interest income from bank credit card installment business calculated using the effective interest method should be recognized in "interest income" or "fee and commission income"
- ▶ Whether the simplified approach can be adopted when an enterprise performs ECL testing on entrusted loans, financial guarantees provided to other enterprises or on lending of funds to related entities within the same group
- ▶ Accounting for structured deposits
- ▶ Classification by issuers (including separate financial statements and consolidated financial statements) and investors of special financial instruments classified as equity instruments under the financial instrument presentation standard

Leases (3 Q&As)

- ▶ Whether leases with a lease term no more than 12 months with a purchase option are defined as short-term leases
- ▶ Accounting for leasehold improvement costs incurred by the lessee and the expected restoration costs arising therefrom
- ▶ Presentation of principal and interest payment of lease liabilities, advance lease payments and lease deposits in the statement of cash flows

Debt restructuring (1 Q&A)

- ▶ How to understand the relationship between the fair value of the waived debt receivable and the fair value of the received assets in debt restructuring using assets to settle liabilities

▶ **SSE releases Guidelines on the Application of Self-regulatory Rules for Corporate Bonds No.1**

In order to regulate the information disclosure of corporate bonds and protect the legitimate rights and interests of investors, the Shanghai Stock Exchange (SSE) has promulgated the [Guidelines on the Application of Self-regulatory Rules for Corporate Bonds No.1 - Ongoing Information Disclosure of Corporate Bonds](#) (Shang Zheng Fa [2021] No.26) (the "Guidelines"), which became effective on 1 May 2021. The Guidelines consist of sections headed General Principles, General Requirements on Information Disclosure, Issuer's Periodic Report, Issuer's Provisional Report, Information Disclosure by Guarantee Agencies, Responsibilities of and Information Disclosure by Professional Agencies.

The *Notice on More Effectively Conducting the Information Disclosure work for the Non-Public Issuance of Corporate Bonds* (Shang Zheng Fa [2016] No.54) and *Notice on the Release of Guidelines for the Information Disclosure Format of Corporate Bond Provisional Reports* (Shang Zheng Fa [2016] No.79) previously issued by the SSE have been repealed simultaneously.

► **SSE revises Guidelines for the Application of Rules for Review of Issuance and Listing of Corporate Bonds No.1**

In order to regulate the review of issuance and listing of corporate bonds and improve the quality of information disclosure, the SSE has revised the [Guidelines for the Application of Rules of the Shanghai Stock Exchange for Review of Issuance and Listing of Corporate Bonds No.1 - Application Documents and Preparation](#) (Shang Zheng Fa [2021] No.27) (the “Guidelines”) to further refine the requirements for the preparation of application documents such as prospectuses.

The Guidelines became effective on 1 May 2021. The *Notice on Issuing the Guidelines for the Application of Rules of the Shanghai Stock Exchange for Review of Issuance and Listing of Bonds No.1 - Application Documents and Preparation* (Shang Zheng Fa [2020] No.86) published by the SSE on 27 November 2020 has been repealed simultaneously. The Guidelines shall prevail if there is any inconsistency between the Guidelines and the previous related requirements issued by the SSE.

► **SSE and SZSE release key points of review of issuance and listing of corporate bonds**

To improve the transparency of the corporate bond review of issuance, and promote the high-quality development of the bond market, the SSE and SZSE have established the [Guidelines for the Application of Rules of the Shanghai Stock Exchange for Review of Issuance and Listing of Bonds No.3 - Key Points of Review](#) (Shang Zheng Fa [2021] No.24) and the [Business Guidelines of the Shenzhen Stock Exchange for Review of Issuance and Listing of Bonds No.1 - Key Points of Corporate Bond Review](#) (Shen Zhen Shang [2021] No.430), which are effective upon release on 22 April 2021.

The above guidelines consist of sections headed General Principles, Organizational Structure and Corporate Governance, Disclosure of Financial information, Issuer under Particular Circumstances, Professional Requirements for Intermediaries, etc. In particular, the section of Disclosure of Financial information includes requirements for the verification and disclosure of key financial indicators such as the issuer’s debt structure and cash flows.

► **SZSE releases format references for prospectuses of corporate bond, periodic reports and provisional reports**

In order to regulate the information disclosure of corporate bond issuers and facilitate the preparation of information disclosure documents for corporate bond, the SZSE has issued the [Notice on Issuing the Business Guidances including Business Guidance of the Shenzhen Stock Exchange for Review of Issuance and Listing of Bonds No.1 - Format Reference for Prospectuses](#) (Shen Zheng Shang [2021] No.453) (the “Notice”). The Notice provides the following formats for reference:

- *Business Guidance on Review of Issuance and Listing of Bonds No.1 - Format Reference for Prospectuses* (“Format of Prospectuses”)
- *Business Guidance on Corporate Bonds in subsequent periods No.1 - Format Reference for Periodic Reports* (“Format of Periodic Reports”)
- *Business Guidance on Corporate Bonds in subsequent periods No.2 - Format Reference for Provisional Reports* (“Format of Provisional Reports”)

For corporate bonds to be listed or already listed on the SZSE, issuers may prepare the relevant information disclosure documents with reference to the Format of Prospectuses, Format of Periodic Reports and Format of Provisional Reports, and make adjustments depending on specific circumstances. However, issuers shall fully disclose all the information that has a significant effect on the judgment on value and the investment decisions of investors, regardless of whether the information is illustrated in the Format of Prospectuses, Format of Periodic Reports and Format of Provisional Reports.

EY publications

► **Applying IFRS: Accounting for COVID-19 related rent concessions (Updated April 2021)**

EY has made important changes since the February 2021 edition to address evolving issues and expand EY’s discussion of certain topics. In [this edition](#) of *Applying IFRS*, EY has added the IASB’s amendment to update the condition to apply the relief to a change in lease payments originally due on or before 30 June 2022 from 30 June 2021.

► **Applying IFRS: IFRS accounting considerations of the Coronavirus pandemic (Updated April 2021)**

[This edition](#) of *Applying IFRS* provides a reminder of the existing accounting requirements that should be considered when addressing the financial effects of the coronavirus pandemic in the preparation of IFRS financial statements for the annual or interim reporting periods ending in 2020.

In this edition, updated in April 2021, EY has added the Board's further amendment to IFRS 16 *Leases* to extend relief on rent concessions related to the coronavirus pandemic in the section on leases.

► **Applying IFRS: IBOR Reform (Updated May 2021)**

The IASB has completed its amendments to IFRS to address the accounting issues posed by IBOR reform. This [third edition](#) of *Applying IFRS* provides an overview of the reliefs, further guidance on the key considerations for entities as they implement the requirements including additional worked examples and extracts of published disclosures.

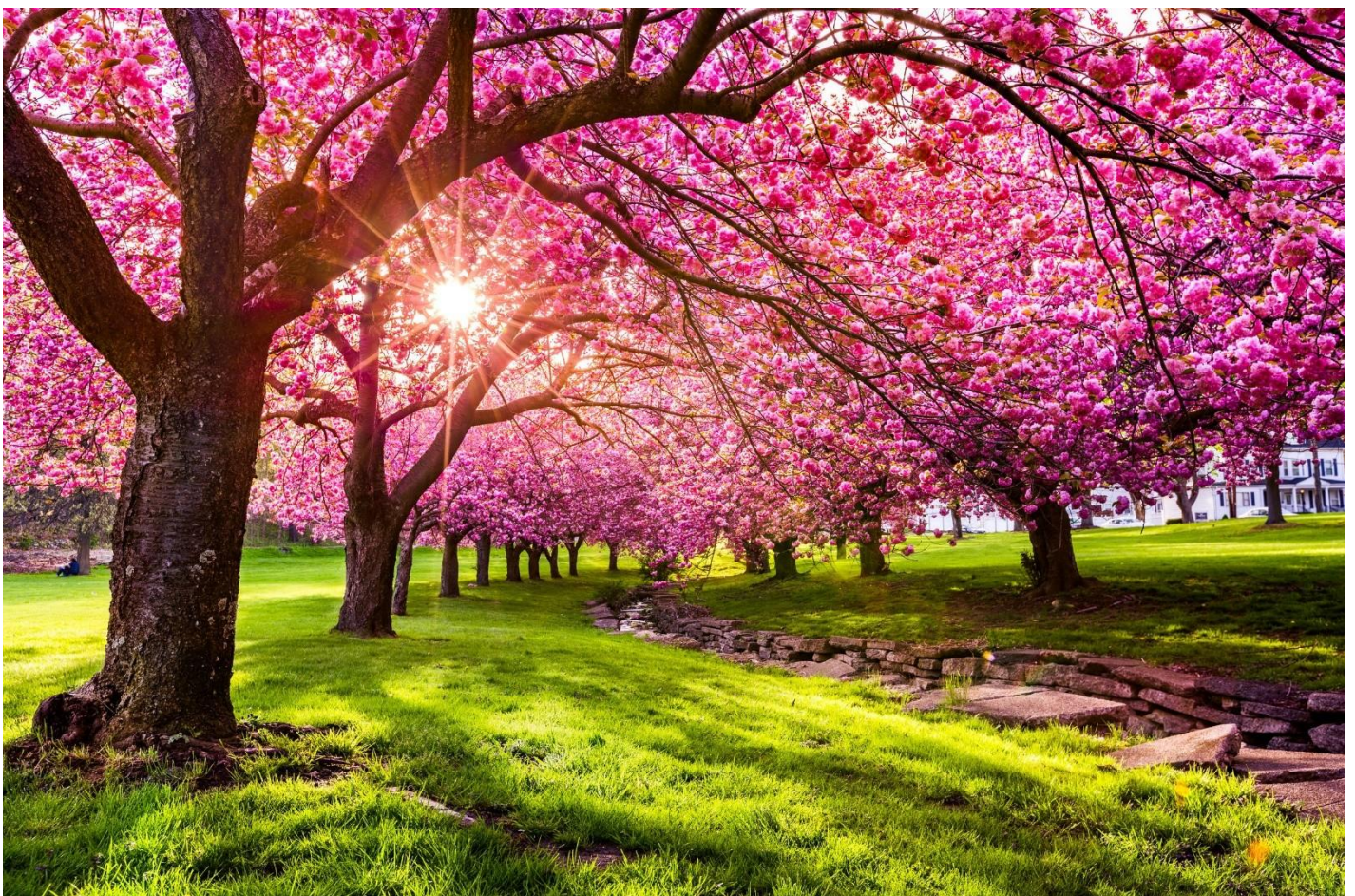
The effective date for the Phase 2 Amendments is 1 January 2021, but early adoption is permitted.

► **IFRS Developments Issue 190: One step closer to an International Sustainability Standards Board**

The IFRS Foundation Trustees took another step towards global sustainability reporting standards by publishing a proposal to amend the IFRS Foundation Constitution to accommodate the formation and operation of an International Sustainability Standards Board. EY *IFRS Developments* [Issue 190](#) summarizes the proposal.

► **IFRS Update of standards and interpretations in issue as at 31 March 2021**

[This edition](#) of *IFRS Update* is an overview of upcoming changes in standards and interpretations issued by the IASB and the IFRIC as at 31 March 2021, that will be effective for the first time for reporting periods ended at that date or thereafter. It also summarizes key features of selected IASB projects and recent IFRIC agenda decisions.



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