China Accounting Alert

July 2023

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

Mainland news and updates

- **The Accounting Regulatory Department of the Ministry of Finance (MOF) releases application examples and Q&As on implementing of the accounting standards**

  In July 2023, the Accounting Regulatory Department of the MOF released two application examples on the expected credit loss method and five Q&As on implementing the accounting standards regarding asset impairment, finance and other aspects, covering:

  - Application example on expected credit loss method (I) – based on the internal rating system;
  - Application example on expected credit loss method (II) – a simplified approach not based on the internal rating system;
  - Company B, a listed company, is an associate of Company A. The equity method is used for the long-term equity investments of Company A in Company B. In 2X22, the share price of Company B declined significantly. As at 31 December 2X22, the share price of Company B was far lower than the carrying amount of net assets of Company B. Was there any indicator that the long-term equity investments of Company A in Company B may be impaired as at 31 December 2X22? If an impairment indicator existed, is it possible to recognize directly the recoverable amount of the long-term equity investments based on the share price of Company B?

- The goodwill arising from business combinations should be allocated to a cash-generating unit (CGU) or a group of CGUs from the acquisition date, on a reasonable basis, subject to impairment testing meaning the CGU or the group of CGUs. Which basic criteria should the CGU or the group of CGUs satisfy for the purpose of such allocation?
- An enterprise implements an equity incentive plan for its employees, with all parties agreed on the service period and performance criteria. During the vesting period, an employee who has participated in the incentive plan considers that the agreed exercise price is high. The employee makes a statement to the enterprise to cease the participation in the plan, signs the exit agreement with the enterprise and recovers the exercise price prepaid in the previous period. Can the share-based payments related to the employee which have been recognized previously be reversed?
- How should the cash flows from credit enhancement such as financial guarantee contracts be accounted for in measuring the expected credit loss on financial instruments?
- Company A holds shares in a structured entity over which Company A has no control, common control or significant influence. The underlying assets of the structured entity are a portfolio of loans with characteristics of "contractual cash flows are solely payments of principal and interest on the principal amount outstanding" (hereinafter referred to as "SPPI"). The terms of loans in the portfolio do not exceed the duration of the structured entity, and the structured entity is not allowed to acquire or dispose of the underlying assets within such duration. The shares of the structured entity are unstratified and there is no guarantee of the principal and returns. Instead, the cash inflows from the underlying assets are distributed to the shareholders with equal proportion in accordance with the contract, after deducting agreed taxes and surcharges, fixed management fees and other cash outflows. Do the shares of the structured entity held by Company A qualify as the SPPI in this case?

For further details, please refer to EY WeChat: *Q&As on implementing and application examples newly released by the MOF*.

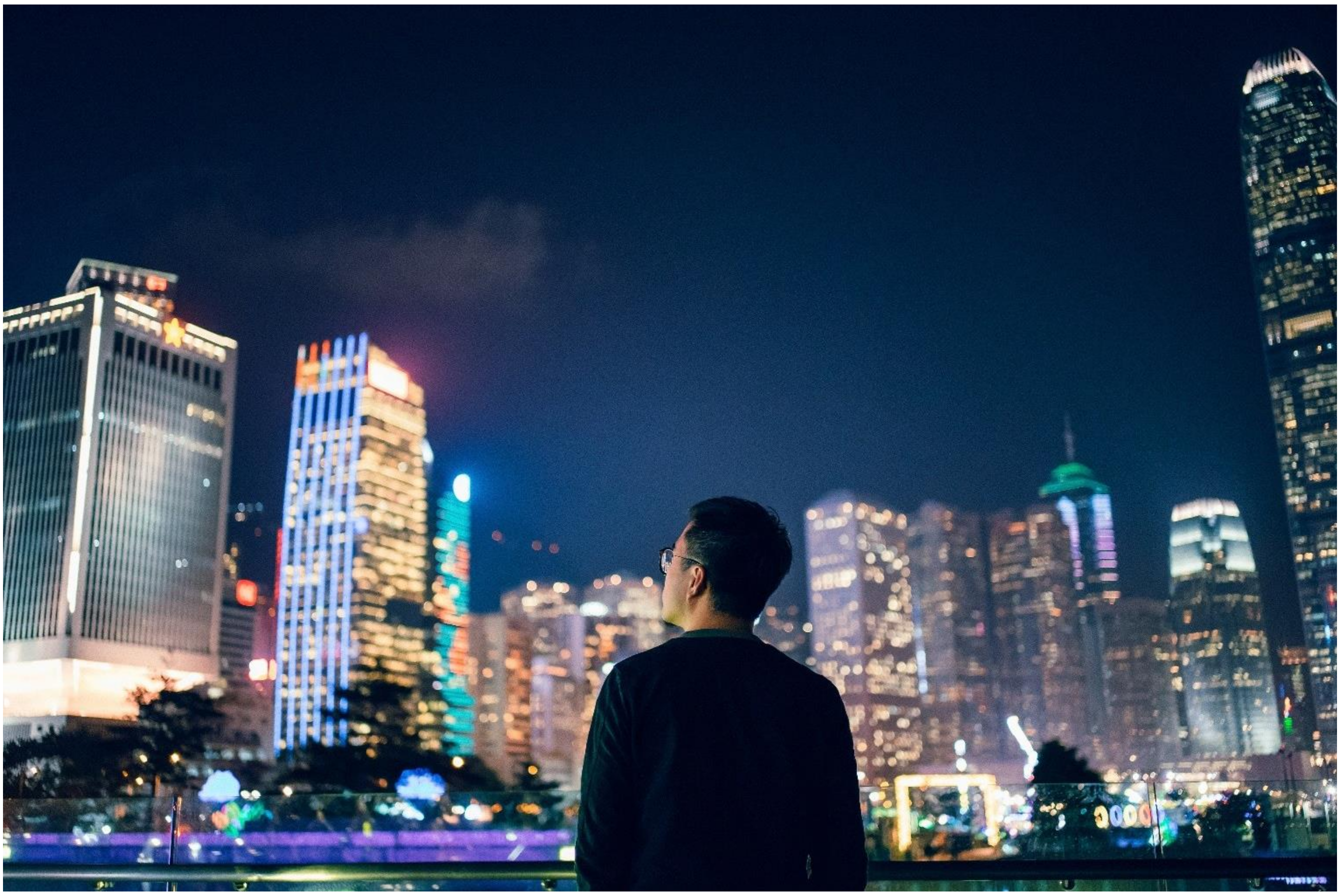
- **The Department of Asset Management of the MOF responds to the transition between old and new administrative measures under the *Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds***

On 4 July 2023, the Department of Asset Management of the MOF responded to message board on transition between old and new administrative measures under the *Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds* as follows:

The *Administrative Measures for the Accrual and Use of Enterprise Work Safety Funds* was officially published on 21 November 2022. To facilitate enterprises managing the transition between old and new administrative measures and to streamline the operation, the new standards for the accrual of enterprise work safety funds may be applied from one of the following times: November 2022, December 2022 or January 2023, provided that the application timing should be consistent within the Group. The enterprise work safety funds before November 2022 should be accrued and used in accordance with the Cai Qi [2012] No.16.

- **Beijing Stock Exchange (BSE) and Hong Kong Stock Exchange (HKEX) sign the Memorandum of Understanding in Beijing**

On 29 June 2023, the BSE and the HKEX signed the Memorandum of Understanding in Beijing (hereinafter referred to as "the Memorandum"). According to the Memorandum, the BSE and the HKEX would support eligible listed companies in both exchanges to apply for listing in each other's market. A company listed on BSE, which meets the criteria for listing on HKEX, may submit the application on HKEX and then report to CSRC for filing, in accordance with the *Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies*. A company listed on HKEX, which meets the relevant requirements of CSRC and the criteria for listing on BSE, may apply for listing on BSE in accordance with the existing regulations.



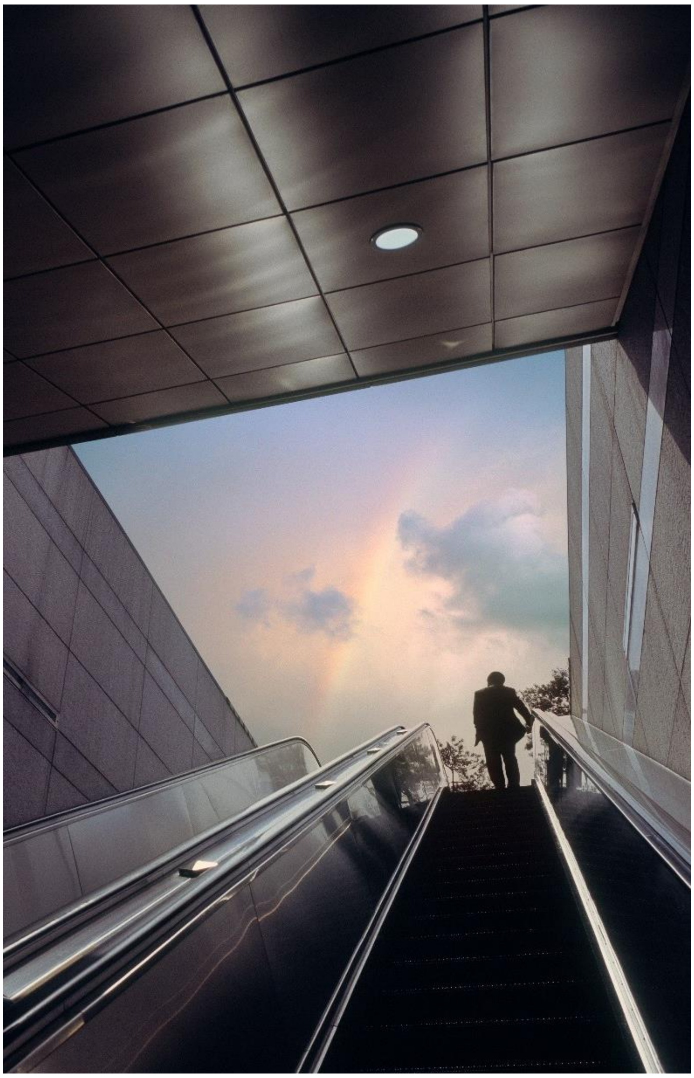
IASB news and updates

- *IASB Update* for June 2023

  The June issue of the *IASB Update* contains the IASB staff summary of the IASB meeting held from 20 to 22 June 2023 when the board discussed:

  Research and standard-setting

  - Rate-regulated activities
  - Equity method
  - Primary financial statements
  - Second comprehensive review of the IFRS for SMEs accounting standard
  - Disclosure initiative – Subsidiaries without public accountability: Disclosures



EY publications

- ***IFRS Developments* Issue 219: IASB issues Request for Information for the Post-implementation Review of IFRS 15**

  The Post-implementation Review (PIR) is part of the IASB's due process to assess the effect of the requirements of a standard on users and preparers of financial statements and is undertaken some time after the standard has become effective. With the Request for Information, the IASB is seeking feedback on applying IFRS 15. Learn more in EY *IFRS Developments* Issue 219.

- ***Applying IFRS*: Accounting considerations related to economic volatility**

  This edition considers the effect of high inflation and high interest rates on entities' financial reports. Inflation rates and interest rates globally remain high, with associated impacts on commodity prices, foreign exchange rates and other macroeconomic factors. As these high rates look set to continue for some time, entities need to carefully consider the impact on financial reporting under IFRS.

- ***IFRS Core Tool:* IFRS Update of standards and interpretations in issue at 30 June 2023**

  This edition contains the IFRS Update of standards and interpretations in issue as at 30 June 2023, and provides an overview of the upcoming changes in standards and interpretations (pronouncements). It also provides an update on selected active projects. It does not attempt to provide an in-depth analysis or discussion of the topics. Rather, the objective is to highlight key aspects of these changes. Reference should be made to the text of the pronouncements before taking any decisions or actions.

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