China Accounting Alert

Usher in the Year of the Dragon

Spring festival special edition

China Accounting Alert provides an overview of accounting standards in the Chinese mainland, updates on IFRS and EY publications.

This special edition of China Accounting Alert for the Spring Festival summarizes new accounting standards and guidelines related to the Accounting Standards for Business Enterprises issued by regulators in Chinese mainland for 2023, as well as various regulatory rules and updates, providing key points that management of listed companies should consider in preparing 2023 annual financial report.

Part I. Notice on 2023 annual reports

- **The Ministry of Finance (MOF), the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), the National Administration of Financial Regulation (NAFR) and the China Securities Regulatory Commission (CSRC) jointly issue Notice on 2023 annual reports**

  The MOF, SASAC, NAFR and CSRC have jointly issued the *Notice on the Strict Implementation of Accounting Standards for Business Enterprises and Practical Guidance for the Better Preparation of 2023 Annual Reports of Enterprises* (Cai Kuai [2023] No. 29, the "Notice"). According to the Notice, enterprises are required to fully understand the significance of the better preparation of 2023 annual reports and 28 key technical issues have been addressed on the implementation of accounting standards when preparing the 2023 annual reports.

  For further details, please refer to EY WeChat: *Notice by the MOF, SASAC, NAFR and CSRC on the Strict Implementation of Accounting Standards for Business Enterprises and Practical Guidance for the Better Preparation of 2023 Annual Reports of Enterprises*.

- **The Beijing Stock Exchange (BSE) office issues *Notice on the Better Preparation of Disclosures of 2023 Annual Reports of Listed Companies***

  To better prepare the disclosures of 2023 annual reports of BSE-listed companies, the BSE office has issued *Notice on the Better Preparation of Disclosures of 2023 Annual Reports of Listed Companies* (Bei Zheng Ban Fa [2023] No. 224). Listed companies should focus on the standardization of financial information disclosures regarding changes in accounting policies and accounting estimates, correction of accounting errors, impairment of assets and prevention of occupation of funds by controlling shareholders.

- **The National Equities Exchange and Quotations (NEEQ) office issues *Notice on the Better Preparation of Disclosures of 2023 Annual Reports of NEEQ-listed Companies***

  To better prepare the disclosures of 2023 annual reports of NEEQ-listed companies, the NEEQ office has issued *Notice on the Better Preparation of Disclosures of 2023 Annual Reports of NEEQ-listed Companies* (NEEQ Announcement [2023] No. 130), which:

  - Provides differentiated templates for the disclosures of annual reports for general companies at different tiers and NEEQ-listed companies in seven financial industries
  - Reaffirms how to handle the situations that trigger the termination of listing

Part II. Relevant provisions and guidelines for accounting standards for business enterprises

A. Relevant provisions and guidelines for accounting standards for business enterprises applicable to financial statements in 2023

- **MOF releases *Accounting Standards for Business Enterprises Interpretation***

Document name	Content
Accounting Standards for Business Enterprises Interpretation No. 16 and accompanying Application Examples	The MOF released *Accounting Standards for Business Enterprises Interpretation No. 16* (Cai Kuai [2022] No. 31, "Interpretation No. 16") , which clarifies on the following issues: ▸ Accounting treatment for assets and liabilities arising from a single transaction which are not applicable for deferred tax initial recognition exemption ▸ Accounting treatment for the tax effect of dividends related to financial instruments classified as equity instruments by issuers ▸ Accounting treatment for share-based payments reclassified from cash-settled to equity-settled The MOF accompanying released the *Application Examples on Income Tax Standards - Deferred tax related to assets and liabilities arising from a single transaction is not applicable for the accounting treatment of initial recognition exemption* and *Application Examples on Share-based Payments Standards - Share-based payments reclassified from cash-settled to equity-settled*, which is a clarification of the first issue and the third issue in Interpretation No. 16. For further details, please refer to EY WeChat: *MOF releases Accounting Standards for Business Enterprises Interpretation No.16 and relevant application examples*.

- **MOF releases application examples on accounting standards for business enterprises**

Classification of accounting standards	Content
Application examples on revenue standards	▸ Point in time of revenue recognition for standardized software products ▸ Recognition of revenue arising from pre-sold commodity housing
Application examples on financial instruments standards	▸ Expected credit loss method (I) – based on the internal rating system ▸ Expected credit loss method (II) – a simplified approach not based on the internal rating system For further details, please refer to EY WeChat: *EY interpretation of Q&As on implementation and application examples newly released by the MOF*.

- MOF releases Q&As on implementing accounting standards for business enterprises

Classification of accounting standards	Content
Q&As on implementing the accounting standards for inventories	▸ Accounting treatment of second-hand vehicles purchased and used for sales by automobile sales enterprises in their daily activities
Q&As on implementing the accounting standards for long-term equity investments	▸ When a listed company is an associate of the investor and the listed company issues additional restricted stock units in a non-public way, whether long-term equity investments in listed companies held by their investors should be accounted for as passive equity dilution ▸ Unrealized internal transaction gains and losses arising from the investments in or sale of assets (except those that constitute a business) between the investor and its associates or joint ventures shall be offset by the investor when preparing consolidated financial statements
Q&As on implementing the accounting standard for asset impairment	▸ 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 the 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 with the CGU or the group of CGUs. What basic criteria should the CGU or the group of CGUs satisfy for the purpose of such allocation
Q&As on implementing the accounting standard for share-based payments	▸ An enterprise provides 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 to the employee which have been recognized previously be reversed For further details, please refer to EY WeChat: *EY interpretation of Q&As on implementation and application examples newly released by the MOF*.

Q&As on implementing the accounting standard for financial instruments	- How should an enterprise determine that a hedging relationship meeting the criteria under the *Accounting Standard for Business Enterprises No. 24 – Hedging* also complies with the requirements on hedge effectiveness - What accounting treatment may an enterprise adopt, if not in accordance with the *Accounting Standard for Business Enterprises No. 24 – Hedging*, in order to eliminate or significantly reduce accounting mismatches when the enterprise hedges the fair value change risk arising from a contract or combination of contracts for the daily sale or purchase of non-financial instruments (which can be netted in cash or other financial instruments or settled by exchanging financial instruments) - How should commercial banks determine whether the expenses incurred in a primary business activity fall within the accounting scope of the transaction costs of financial instruments, "fee and commission expenses" or "business and administrative expenses" - How should an enterprise determine that an investment in equity instruments is "non-transactional" and thus qualifies as a financial asset measured at fair value through other comprehensive income - 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, joint 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 (SPPI) on the principal amount outstanding". 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 the 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 Four New Accounting Standards for Financial Instruments Issued by the MOF* and *EY interpretation of Q&As on implementation and application examples newly released by the MOF*.
Q&As on implementing the new standard for insurance contracts	- According to the new accounting standard for insurance contracts, how enterprises adopt the "bottom-up approach" to determine the discount rate corresponding to the cash flow of the insurance contract that does not change with the return of basic items - How the relevant disclosure requirements in Chapter IX of the new accounting standard for insurance contracts are connected to the disclosure requirements in the *Accounting Standard for Business Enterprises No. 28 - Accounting Policies, Changes in Accounting Estimates and Error Correction*

- For insurance contracts with discretionary participation features, where the enterprise chooses to break down the financial changes of the insurance contract into the current insurance financial profit or loss and other comprehensive income using the modified retrospective approach or the fair value approach, if the corresponding basic items include assets (or liabilities) other than the assets (or liabilities) measured at fair value through profit or loss, how should the enterprise account for the financial changes of the insurance contract arising from these assets (or liabilities) to avoid accounting mismatches
- If subsidiaries implement the new accounting standard for insurance contracts later than the group company, how should subsidiaries determine the date of transition in accordance with the requirements of the new accounting standard for insurance contracts and the possible effects of selection of the date of transition

For further details, please refer to EY WeChat: *Q&As on Implementing Four New Accounting Standard for Insurance Contracts Issued by the MOF*.

- **CSRC releases new rules**

Document name	Content
Rules Regarding the Preparation of Reports for Information Disclosure Purposes by Companies Publicly Offering Securities No. 15 – General Provisions on Financial Reports	The CSRC has revised and released the *Rules Regarding the Preparation of Reports for Information Disclosure Purposes by Companies Publicly Offering Securities No. 15 – General Provisions on Financial Reports* (CSRC Announcement [2023] No. 64, the "General Provisions on Financial Reports"), which became effective upon release on 22 December 2023. The revisions to the General Provisions on Financial Reports mainly include: ▸ Clarifications on the principles for judging materiality, requiring the company to disclose the approach to determine materiality standards and basis for selection of materiality standards ▸ Reduction in the disclosure of redundant information to avoid repeated disclosure and improve the readability of financial reports ▸ Limitations on copying from the *Accounting Standards for Business Enterprises* mechanically in information disclosure, requiring the company to fully disclose important accounting policies and accounting estimates in light of its actual circumstances ▸ Refinement of the disclosure requirements for notes to important presentation items to facilitate investors to fully understand the company's situations ▸ Additions of special sections to clarify the information disclosure requirements of notes to R&D expenses, and provide guidance for market participants to properly evaluate the company's scientific and technological innovation capabilities

	▸ Improvement of the disclosure requirements for revenue and business combinations, etc., based on the recent adjustments in *Accounting Standards for Business Enterprises* and capital market regulatory rules for better alignment with regulatory rules For further details, please refer to EY WeChat: *CSRC Revises Rules Regarding the Preparation of Reports for Information Disclosure Purposes by Companies Publicly Offering Securities No. 15 – General Provisions on Financial Reports*.
Interpretive Notice Regarding Information Disclosure by Companies Publicly Offering Securities No. 1 – Non-recurring Profit or Loss	The CSRC has revised and released the *Interpretive Notice Regarding Information Disclosure by Companies Publicly Offering Securities No.1 – Non-recurring Profit or Loss* (CSRC Announcement [2023] No. 65, "No. 1 Interpretive Notice"), which became effective upon release on 22 December 2023. The revisions to the *No. 1 Interpretive Notice* mainly include: ▸ Additions of three principles for judging non-recurring profit or loss to provide guidance for the company to properly disclose non-recurring profit or loss information ▸ Clarifications on situations where there is disagreement for the purpose of reducing disputes in practice ▸ Improvement of the presentation items of non-recurring profit or loss such as government subsidies, financial assets, and share-based payments, etc. to improve the compatibility between the rules and the current capital market environment ▸ Improvement of relevant formulations based on the revision of *Accounting Standards for Business Enterprises* and regulatory rules in recent years for better alignment with the relevant requirements for listing and delisting in terms of presentation items such as share-based payments and obviously unfair transaction income, etc. For further details, please refer to EY WeChat: *New rule on non-recurring profit or loss issued*.
Guideline for the Application of Regulatory Rules – Accounting No. 3	The CSRC issued *Guideline for the Application of Regulatory Rules – Accounting No. 3* ("Accounting No. 3") on 3 February 2023. *Accounting No. 3* covers 11 specific issues, including long-term equity investments, financial instruments, leases and share-based payments. For further details, please refer to EY WeChat: *CSRC releases guideline for the application of regulatory rules – Accounting No. 3*.
Guideline for the Application of Regulatory Rules – Accounting No. 4	Upcoming Guideline for the Application of Regulatory Rules – Accounting No. 4 by CSRC. Pay attention to *China Accounting Alert – Special Edition*.

Accounting Regulatory Report on 2022 Annual Financial Reports of Listed Companies	The CSRC has arranged special personnel for reviewing the 2022 annual financial reports of listed companies on a sampling basis and has issued the *Accounting Regulatory Report on 2022 Annual Financial Reports of Listed Companies*. In general, *Accounting Standards for Business Enterprises* and rules on financial information disclosures are adequately implemented by listed companies, while there are still some accounting errors or issues in financial information disclosure regarding revenue, long-term equity investments and business combinations, financial instruments, impairment of assets, and non-recurring profit or loss, etc. Listed companies, audit firms and other intermediaries are required to place more importance on the issues mentioned in accounting regulatory reports, continue to improve their understanding and application of accounting standards for business enterprises and rules on financial information disclosure, identify and correct errors in financial reports in a timely manner, enhance the financial information disclosure of listed companies, and drive the quality of accounting information disclosure of the capital market.

B. Relevant provisions and guidelines for accounting standards for business enterprises applicable from 1 January 2024

Document name	Content
Accounting Standards for Business Enterprises Interpretation No. 17 and accompanying Application Example	The MOF released *Accounting Standards for Business Enterprises Interpretation No. 17* (Cai Kuai [2023] No. 21, "Interpretation No. 17") , which became effective on 1 January 2024. Interpretation No. 17 clarifies on the following issues: ▸ classification of liabilities as current or non-current ▸ disclosures of supplier finance arrangements ▸ accounting for sale and leaseback transactions The MOF has released the *Application Examples on Leasing Standard - Seller-lessee's accounting for sale and leaseback transactions with variable payments that do not depend on an Index or a rate*, which is a clarification of the third issue in Interpretation No. 17. For further details, please refer to EY WeChat: *MOF releases Accounting Standards for Business Enterprises Interpretation No. 17*.
Provisional Regulations on the Accounting Treatment for Enterprise Data Resources	To standardize the accounting treatment for enterprise data resources, the MOF has formulated and issued the *Provisional Regulations on the Accounting Treatment for Enterprise Data Resources* (Cai Kuai [2023] No. 11, the "Provisional Regulations"). The Provisional Regulations became effective on 1 January 2024 and shall be implemented prospectively. Expenditures related to data resources that have been charged to profit or loss before the implementation of the Provisional Regulations shall not be adjusted. For further details, please refer to EY WeChat: *MOF issued the Provisional Regulations on the Accounting Treatment for Enterprise Data Resources*.

Part III. IFRS news and updates

- **International Accounting Standards Board (IASB) Update December 2023**

  The December issue of the *IASB Update* contains the IASB staff summary of the IASB meeting held from 12 to 14 December 2023 when the board discussed:

  Work plan overview

  - IASB work plan update

  Research and standard-setting

  - Rate-regulated Activities
  - Management Commentary
  - Second Comprehensive Review of the IFRS for SMEs Accounting Standard
  - Disclosure Initiative – Subsidiaries without Public Accountability: Disclosures

  Maintenance and consistent application

  - Power Purchase Agreements
  - Use of a Hyperinflationary Presentation Currency by a Non-hyperinflationary Entity
  - Climate-related and Other Uncertainties in the Financial Statements
  - Provisions – Targeted Improvements
  - Addendum to the Exposure Draft Third edition of the IFRS for SMEs Accounting Standard

- **International Sustainability Standards Board (ISSB) Update December 2023**

  The December issue of the *ISSB Update* contains the ISSB staff summary of the ISSB meeting held from 13 to 14 December 2023 when the board discussed:

  Maintenance and consistent application

  - International Applicability of the Sustainability Accounting Standards Board's (SASB) Standards

  Taxonomy

  - IFRS Sustainability Disclosure Taxonomy

  Strategy and governance

  - ISSB Consultation on Agenda Priorities

Part IV. EY publications

- ***Applying IFRS:* IASB continues to develop its Dynamic Risk Management (DRM) accounting model**

  The IASB has sought to align the accounting model with the approach actually used for risk management, so as to limit any inconsistencies between them. In particular, the DRM model has moved away from traditional hedge accounting models that focus on a specific hedged amount, to a risk management strategy that sets out an acceptable range (using risk limits) within which the risk exposure can vary.

  It is now possible to understand, at a high level, how the model is expected to work. However, the IASB is still developing other areas of the model as it works toward an Exposure Draft, expected to be published in 2025.

- ***Applying IFRS:* Introduction to IFRS S1 and IFRS S2**

  This edition considers the requirements of IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures.*

  IFRS S1 and IFRS S2 are the first IFRS sustainability disclosure standards, issued by the ISSB in June 2023. IFRS S1 sets out the general requirements for a complete set of sustainability-related financial disclosures. IFRS S1 is designed to be applied in conjunction with IFRS S2, which is a topic-based standard that specifies disclosures relating to climate.

- ***IFRS Update:* Standards and interpretations in issue 31 December 2023**

  This edition 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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