

# China Accounting Alert

January 2021

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

## Mainland news and updates

- MOF clarifies matters relating to the equivalence of accounting standards after Brexit

Recently, the MOF has issued [Announcement \[2020\] No.47](#) to clarify matters relating to the equivalence between China Accounting Standards for Business Enterprises and International Financial Reporting Standards after the end of the Brexit transition period.

According to the *Brexit Act* and related laws, the decision to recognize the equivalence of China Accounting Standards for Business Enterprises made by the European Commission before Brexit will become UK law after the end of the Brexit transition period, so the UK will continue to recognize the equivalence between China Accounting Standards for Business Enterprises and International Financial Reporting Standards, and UK-listed companies can continue to adopt International Financial Reporting Standards at the consolidated financial statements level.

Thus, under the principle of reciprocity, International Financial Reporting Standards adopted by UK-listed companies at the consolidated financial statements level are still considered equivalent to China Accounting Standards for Business Enterprises after the end of the Brexit transition period.

► **MOF issues the revised insurance contract standard**

In order to further improve the system of Accounting Standards for Business Enterprises and maintain ongoing convergence with International Financial Reporting Standards, the MOF has released the revised [Accounting Standard for Business Enterprises No.25 - Insurance Contracts](#) (Cai Kuai [2020] No.20, the “new insurance contract standard”). Significant changes have been made in areas such as the recognition of revenue from insurance services, and the measurement of insurance contract liabilities. Specifically, the new insurance contract standard:

- Improves the definition of an insurance contract and clarifies contract combination and disaggregation
- Introduces the concept of a group of insurance contracts
- Improves the measurement model for insurance contracts
- Adjusts principles for recognizing revenue from insurance services
- Improves the measurement method for the contractual service margin
- Adds new measurement methods for insurance contracts with discretionary participation features
- Standardizes the accounting treatment for ceded reinsurance contracts
- Improves the presentation of financial statements

The new insurance contract standard will become effective on 1 January 2023 for enterprises listed both domestically and overseas at the same time, and enterprises listed overseas and adopting International Financial Reporting Standards or Accounting Standards for Business Enterprises; and on 1 January 2026 for other enterprises that apply Accounting Standards for Business Enterprises. Meanwhile, early application is permitted.

Enterprises that apply the new insurance contract standard will no longer apply *Accounting Standard for Business Enterprises No. 25 - Original Insurance Contracts* and *Accounting Standard for Business Enterprises No. 26 - Reinsurance Contracts* under *Notice of the Ministry of Finance on Issuing 'Accounting Standard for Business Enterprises No.1 - Inventories' and Other 37 Specific Accounting Standards* (Cai Kuai [2006] No.3) issued by the MOF in February 2006, as well as *Provisions on the Accounting Treatment for Insurance Contracts* (Cai Kuai [2009] No.15) issued by the MOF in December 2009.

For further details about the new insurance contract standard, please refer to EY WeChat: [MOF issues the revised Accounting Standard for Business Enterprises No.25 - Insurance Contracts - Embrace the new insurance contract standard](#)

► **MOF and China Banking and Insurance Regulatory Commission (“CBIRC”) issue Notice on Further Implementing the New Financial Instrument Standards**

In order to further strengthen the guidance on the implementation of the new financial instrument standards, the MOF and the CBIRC have issued [Notice on Further Implementing the New Financial Instrument Standards](#) (Cai Kuai [2020] No.22) (the “Notice”). The Notice:

- Clarifies the timeline of implementation for some enterprises and entities that have not yet implemented the new financial instrument standards
- Provides transition arrangements on regulatory capital of unlisted non-bank financial institutions that will adopt the new financial instrument standards
- Recalls key concerns when applying the expected credit loss method in the wake of the COVID-19 pandemic

For further details about the Notice, please refer to EY WeChat: [MOF and CBIRC issue Notice on Further Implementing the New Financial Instrument Standards](#)

- ▶ The People's Bank of China (the "PBOC"), National Development and Reform Commission ("NDRC") and China Securities Regulatory Commission ("CSRC") jointly issue *Administrative Measures for Information Disclosure of Corporate Credit Bonds*

In order to promote the consistency of rules on information disclosure of corporate credit bonds and improve the information disclosure system of corporate credit bonds, the PBOC, NDRC and CSRC have recently jointly issued *Administrative Measures for Information Disclosure of Corporate Credit Bonds* (the "Measures"). The Measures will become effective on 1 May 2021.

The Measures are applicable to the issuance of enterprise bonds offered to the public by enterprises, corporate bonds and debt financing instruments of non-financial enterprise in the interbank bond market as well as their information disclosure in subsequent periods. The Measures consist of 47 articles in 5 chapters, titled General Principles, Information Disclosure for Enterprises, Information Disclosure for Intermediaries, Regulatory Management and Legal Responsibilities, and Supplementary Provisions. At the same time, detailed preparation requirements for preparing prospectuses and periodic reports are provided in the appendices to the Measures.

*Standard for Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No.23 - Prospectus for Public Issuance of Corporate Bonds* (CSRC Announcement [2015] No.2), *Standard for Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No.38 - Contents and Formats of Annual Reports on Corporate Bonds* (CSRC Announcement [2016] No.3), *Standard for Contents and Formats of Information Disclosure by Companies Publicly Offering Securities No.39 - Contents and Formats of Half-year Reports on Corporate Bonds* (CSRC Announcement [2016] No.9) and *Guidelines on Information Disclosure for the Issuance of Enterprise Bonds* (Attachment 2 of Fa Gai Ban Cai Jin [2015] Document No.3127) will be repealed simultaneously.

- ▶ Shanghai Stock Exchange (the "SSE") integrates and revises Guidelines on Industry Information Disclosure

In order to improve the system of industry information disclosure rules and further promote the effectiveness and pertinence of industry information disclosure, the SSE has integrated and rearranged the previously issued Guidelines on Industry Information Disclosure for Listed Companies (No.1 to 28), and formulated *Guideline No.5 for the Application of Self-Regulatory Rules for Listed Companies - Industry Information Disclosure* (Shang Zheng Fa [2021] No.4) (the "Guideline"). The Guideline became effective upon release on 11 January 2021.

As compared to the old version, this integration has retained the contents in General Requirements, revised the guidelines on information disclosure for 16 industries, such as real estate, coal and electric power, and removed the guidelines on information disclosure for the remaining 11 industries. The rearranged version consists of the following 17 topics:

- ▶ No.1 - General Requirements
- ▶ No.2 - Real Estate (Revised in 2020)
- ▶ No.3 - Coal (Revised in 2020)
- ▶ No.4 - Electric Power (Revised in 2020)
- ▶ No.5 - Retail (Revised in 2020)
- ▶ No.6 - Automobile Manufacturing (Revised in 2020)
- ▶ No.7 - Pharmaceutical Manufacturing (Revised in 2020)
- ▶ No.8 - Iron and Steel (Revised in 2020)
- ▶ No.9 - Construction (Revised in 2020)
- ▶ No.10 - Photovoltaics (Revised in 2020)
- ▶ No.11 - Garments (Revised in 2020)
- ▶ No.12 - Press and Publishing (Revised in 2020)
- ▶ No.13 - Brewing (Revised in 2020)
- ▶ No.14 - Chemical industry (Revised in 2020)
- ▶ No.15 - Food Manufacturing (Revised in 2020)
- ▶ No.16 - Furniture Manufacturing (Revised in 2020)
- ▶ No.17 - Non-ferrous Metals (Revised in 2020)

Guidelines on Industry Information Disclosure for Listed Companies (No.1 to 28) (Shang Zheng Fa [2015] No.75, Shang Zheng Fa [2015] No.96, Shang Zheng Fa [2016] No.73, Shang Zheng Fa [2018] No.116) and *Memorandum No.12 on Routine Information Disclosure for Listed Companies - Sub-Industry Operating Information Disclosure for Listed Companies* issued by the SSE on 26 December 2013 have been repealed simultaneously.

► **SSE issues Notices on Disclosure of 2020 Annual Reports**

In order to better prepare for the disclosure of 2020 annual reports of listed companies, the SSE has recently issued *Notice on the Preparation of Disclosure of 2020 Annual Reports of Listed Companies on the Main Board* (the "Notice"). The Notice mainly includes requirements regarding the disclosure of occupation of funds and illegal guarantees, corporate governance and internal control, ongoing information disclosure of mergers, acquisitions and restructuring, implementation of accounting standards and rules for financial information disclosure, and audit-related matters.

Meanwhile, in order to better prepare for the disclosure of 2020 annual reports of listed companies on the Sci-Tech Innovation Board (the "STAR") Market, the SSE has also issued *Notice on the Preparation of Disclosure of 2020 Annual Reports of Listed Companies on the STAR Market* (the "STAR Notice"). Regarding the disclosure of key financial information in annual reports, the STAR Notice includes requirements for the disclosure of performance risks, audit-related matters, and implementation of accounting standards and rules for financial information disclosure.

► **Shenzhen Stock Exchange (the "SZSE") issues five Guidelines on Industry Information Disclosure**

In order to regulate the information disclosure of listed companies, the SZSE has formulated [five Guidelines on Industry Information Disclosure](#) for food and liquor manufacturing, electric power, automobile manufacturing, textile and apparel, and the chemical industry (Shen Zheng Shang [2020] No.16):

- *Shenzhen Stock Exchange Guideline on Industry Information Disclosure No.14 - Listed Companies Engaging in Food and Liquor Manufacturing Related Businesses*
- *Shenzhen Stock Exchange Guideline on Industry Information Disclosure No.15 - Listed Companies Engaging in Electric Power Related Businesses*
- *Shenzhen Stock Exchange Guideline on Industry Information Disclosure No.16 - Listed Companies Engaging in Automobile Manufacturing Related Businesses*
- *Shenzhen Stock Exchange Guideline on Industry Information Disclosure No.17 - Listed Companies Engaging in Textile and Apparel Related Businesses*
- *Shenzhen Stock Exchange Guideline on Industry Information Disclosure No.18 - Listed Companies Engaging in Chemical Industry Related Businesses*

The above guidelines became effective upon release on 6 January 2021.



► **SZSE issues two ChiNext Board Guidelines on Industry Information Disclosure**

In order to regulate the information disclosure for listed companies on the ChiNext Board, the SZSE has formulated two [ChiNext Board Guidelines on Industry Information Disclosure](#) for the communications and cybersecurity industries (Shen Zheng Shang [2021] No.20):

- *Shenzhen Stock Exchange ChiNext Board Guideline on Industry Information Disclosure No.14 - Listed Companies Engaging in Communications Related Businesses*
- *Shenzhen Stock Exchange ChiNext Board Guideline on Industry Information Disclosure No.15 - Listed Companies Engaging in Cybersecurity Related Businesses*

The above guidelines became effective upon release on 7 January 2021.

► **SZSE issues Notice on Disclosure of 2020 Annual Reports**

In order to better prepare for the disclosure of 2020 annual reports of listed companies, the SZSE has recently issued the *Notice on the Preparation of Disclosure of 2020 Annual Reports of Listed Companies* (the “Notice”). The Notice mainly includes requirements for the disclosure of occupation of funds and illegal guarantees, corporate governance and internal control, ongoing information disclosure of mergers, acquisitions and restructuring, implementation of accounting standards and rules for financial information disclosure, sub-industry information disclosure, and audit-related matters.

► **National Equities Exchange and Quotations (the “NEEQ”) releases Guidelines on Industry Information Disclosure for the Lithium Ion Battery Manufacturing Industry**

To provide guidance on the disclosure of NEEQ-listed companies' operating information and improve the effectiveness of information disclosure, the NEEQ has recently released [Guidelines on Industry Information Disclosure for the Lithium Ion Battery Manufacturing Industry](#), which include:

- *Guideline on Information Disclosure for Public Transfer Statements of NEEQ - Lithium Ion Battery Manufacturing Companies*
- *Guideline on Information Disclosure for NEEQ-Listed Companies - Lithium Ion Battery Manufacturing Companies*

The above guidelines became effective upon release on 25 December 2020. The guideline on information disclosure for public transfer statements is applicable to companies applying for NEEQ listing, while the guideline on ongoing information disclosure is applicable to companies listed on the Selection Tier and the Innovation Tier. Companies listed on the Base Tier are also encouraged to follow these guidelines.

► **NEEQ releases *Notice on the Preparation of Disclosure of 2020 Annual Reports of NEEQ-Listed Companies***

The NEEQ has recently released [Notice on the Preparation of Disclosure of 2020 Annual Reports of NEEQ-Listed Companies](#) (the “Notice”) to better prepare for the disclosure of 2020 annual reports of NEEQ-listed companies. The Notice:

- Provides different templates for the disclosure of annual reports for general companies at different tiers and NEEQ-listed companies of eight financial industries
- Requires companies listed on the Selection Tier and the Innovation Tier to fulfill responsibilities for information disclosure of annual reports in accordance with the guidelines on sub-industry information disclosure, and encourages companies listed on the Base Tier to make voluntary disclosures
- Focuses on regulatory requirements for financial information disclosure such as accounting policies, changes in accounting estimates and errors, goodwill impairment, implementation of the new revenue standard and the new lease standard, and prevention of occupation of funds by controlling shareholders

## EY publications

- ▶ **Applying IFRS: A closer look at IFRS 16 Leases (Updated December 2020)**

EY updated [Applying IFRS](#) on IFRS 16 Leases including changes to address evolving implementation issues. It analyzes the standard and considers the implementation issues, including the recent discussions by the IASB and the IFRS Interpretations Committee. It also provides a comparison to the US GAAP standard on leases.

- ▶ **Applying IFRS: IBOR Reform (Updated December 2020)**

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

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

- ▶ **IFRS Developments Issue 181: IASB issues request for information on the IFRS standards on group accounting**

On 9 December 2020, the IASB issued a Request for Information as part of the Post-implementation Review (PIR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. IFRS 10, IFRS 11 and IFRS 12 were effective for annual reporting periods beginning on or after 1 January 2013. In this phase of the PIR, the IASB is seeking feedback on applying those standards and information provided to users of financial statements.

The Request for Information is open to public comment until 10 May 2021. *EY IFRS Developments* [Issue 181](#) discusses these areas in more detail.



► **IFRS Developments Issue 182: Agenda decision on reverse factoring**

The Agenda Decision considers the impact of a reverse factoring arrangement on presentation in the balance sheet, the derecognition of a financial liability, presentation in the statement of cash flows and in the notes to the financial statements. EY *IFRS Developments* [Issue 182](#) tells you what you need to know about the agenda decision.

► **IFRS Update of standards and interpretations in issue at 31 December 2020**

[This edition](#) of *IFRS Update* is an overview of the upcoming changes in standards and interpretations issued by the IASB and the IFRIC as at 31 December 2020 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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